S. HRG. 99-1014

FEDERAL EMPLOYEES' OPTIONAL EARLY RETIREMENT ACT OF 1986

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

S. 2197

TO AMEND TITLE 5, UNITED STATES CODE, TO ESTABLISH AN OPTIONAL EARLY RETIREMENT PROGRAM FOR FEDERAL GOVERNMENT EMPLOYEES, AND FOR OTHER PURPOSES

MAY 15, 1986

Printed for the use of the Committee on Governmental Affairs

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FEDERAL EMPLOYEES' OPTIONAL EARLY RETIREMENT ACT OF 1986

THURSDAY, MAY 15, 1986

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The committee met, at 9:35 a.m., in room SD-342, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Present: Senators Roth, Durenberger, Eagleton, and Gore.

OPENING STATEMENT OF CHAIRMAN ROTH

Chairman ROTH. On March 14, 1986, Ted Stevens and myself introduced the Federal Employees' Early Retirement Act of 1986. In this bill we propose, as an alternative to involuntary layoffs, offering to older Federal employees a choice of retiring this year with partial benefits. This would allow substantial reductions in payroll, with savings to taxpayers, and it would help avoid the layoffs.

Over a year ago, I asked the committee staff to work out an early retirement proposal. We worked through several designs varying the eligibility, benefits, timing and other rules before arriving at the proposal in this bill. We are following a trail blazed by private industry.

Two recent studies by Hewitt Associates and the Redford Group show that many large companies have successfully offered these early retirement windows during the past several years. Both these studies indicate that the main reasons employers use these programs are to save money, while avoiding mass layoffs. Under our proposal, some 350,000 employees will be newly eligible to retire based on the same age and service rules that apply to involuntary retirement under current law in layoff situations, age 50 with 20 years of service or any age with 25 years of service. Another 100,000 employees would be eligible to retire under an expansion of the rules to include those age 55 with 15 years' service, or age 57 with 5 years' service.

I am not going to read through all these proposals, but they will be incorporated in the record.

[Chairman Roth's prepared statement follows:]

PREPARED STATEMENT OF SENATOR ROTH

On March 14, 1986, Senator Ted Stevens and I introduced the Federal Employees' Early Retirement Act of 1986. In this bill we propose, as an alternative to layoffs, offering to older federal employees a choice of retiring this year with partial benefits. This would allow substantial reductions in payrolls, with savings to taxpayers, and it would help avoid layoffs.

Over a year ago I asked the staff of the Committee on Governmental Affairs to work out an early retirement proposal. We worked through several designs, varying the eligibility, benefits, timing and other rules before arriving at the proposal in this bill. We are following a trail blazed by private industry. Two recent studies, by Hewitt Associates and The Redford Group, show that many large companies have successfully offered these early retirement windows during the past few years. Both these studies indicate that the main reasons employers use these programs are to save money while avoiding mass layoffs.

Under our proposal some 350,000 employees would be newly eligible to retire, based on the same age and service rules that apply to involuntary retirement under current law in layoff situations, age 50 with 20 years service or any age with 25 years service. Another 100,000 employees would be eligible to retire under an expansion of the rules to include those age 55 with 15 years service, or age 57 with 5 years service. This opens the window to those who are now within 5 years of eligibility for full retirement benefits. This means that a total of nearly 450,000 employees would be eligible for the early retirement window while it is open during the last 6 months of 1986.

The proposal necessarily includes controls on replacement of those who retire, by reducing agency manpower ceilings. This method steers a middle course between imposing a total ban on hiring replacements, which could impair the government's ability to carry out programs, and giving agencies free rein to hire despite the urgent need to act regarding the federal deficit. We do not wish to micromanage the government agencies, and so the bill gives the Executive branch the authority to decide on hiring of replacements.

This proposal has many advantages. First, this proposal responds to the problem of the federal deficit and the potentially devastating effect of layoffs under Gramm-Rudman sequestration order. I cannot emphasize that point too strongly. Anyone who views this proposal as part of the problem and not part of the solution should remember how difficult it has been to save money without making changes in federal employee pay and benefits.

Second, this proposal makes a voluntary offer of retirement that is far preferable to layoffs or reductions in force. It provides job opportunities and greater employment security to women, minorities and young managers.

Third, this proposal takes advantage of a gap in federal employee early retirement rules to make eligible about 100,000 employees who lack the age and service needed under the usual early-out rules of current law, and who are within 5 years of retirement age. It gives these people a degree of freedom they have never had before, to start a second career or coordinate their retirement plans with those of their spouse.

Fourth, this proposal can save the taxpayers large sums of money. The preliminary figures we have from Congressional Budget Office indicate that the bill would save over $7 billion between July 1, 1986 and October 1, 1990.

The response to this bill has been highly favorable. Hundreds of federal employees have called and written my office to express their support.

Although a number of possible objections have been raised, I would remind the committee that S. 2197 is a starting point for further discussion and recommendations.

Today we have asked interested parties to give us their views on how this proposal will work, and how it can be made to work better.

Chairman ROTH. I do want to say that the proposal has many advantages. First, it responds to the problem of the Federal deficit and the potentially devastating effect of layoffs under Gramm-Rudman sequestration orders. I cannot emphasize that point too strongly. Anyone who views this proposal as part of the problem and not part of the solution should remember how difficult it has been to save money without making changes in Federal employee pay and benefits.

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Fourth, this proposal can save the taxpayers large sums of money. The preliminary figures we received from Congressional Budget Office indicate that the bill could save over $7 billion between July 1986 and October 1990.

Response to this bill has been highly favorable. Hundreds of employees have called and written my office to express their support. Although a number of possible objections have been raised, I would remind the committee and the people here before us that we look upon S. 2197 as a starting point for further discussion and recommendations.

I would also say we intend to move ahead, so that it is important to those who want to improve and amend and revise that we are not going to delay this indefinitely.

But we are interested in the proposals from both the administration and others, because we want a plan that can serve the mutual interests of the employees and the Government at large.

[At the request of the chairman the opening statements of Senator Stevens, Eagleton, and Glenn follow:]

Opening Statement of Senator Stevens

Thank you, Mr. Chairman.

Today's hearing will have a significant impact on the course that the Federal workforce will be taking in the coming years.

The intent of this legislation is to reduce the civilian payroll without large reductions-in-force. We all know the emotional turmoil that accompanies a major RIF plus the many hidden costs that follow. These hidden costs come from severance pay, transfer expenses, and the horrible situation where GS-11/12 level employees bump into GS-3/4 jobs while continuing to receive the higher rates of pay. And then there is the general loss of productivity and organizational malaise that accompany reductions-in-force.

While reducing the potential for RIF's, this legislation will open many doors to our younger employees who had not seen a bright future of career advancement. These younger employees will maintain a strong and vibrant workforce.

I am looking forward to hearing the testimony that will be presented today.

Opening Statement of Senator Eagleton

Mr. Chairman, today the Senate Governmental Affairs Committee is considering S. 2197, a bill you introduced, which would establish an optional early retirement program for federal employees. The Federal Employees' Optional Early Retirement Act of 1986 would allow federal civilian employees to retire between July 1 and December 31, 1986, if they satisfy any of the following age and length of service criteria: age 50 with 20 years of service, age 55 with 15 years of service, age 57 with five years of service, or any age with 25 years of service. As under current law, benefits would be reduced by 2 percent for any employee who retires under the age of 55.

The reaction to the proposed "early out" program from federal employees has been, understandably, enthusiastic. However, some concerns have been raised about the plan because it could possibly result in the loss of the best and most experienced federal workers. The General Accounting Office estimates that in addition to the approximately 253,000 employees currently eligible for retirement this year, another 469,000 federal workers could possibly retire under the proposed early retirement provisions—that is, ¼ of the entire federal workforce.

Furthermore, because the legislation would prevent agencies from hiring any replacements until 1991, unless OPM agreed to waive the hiring restrictions, some federal programs, which are perhaps unpopular with the Administration, may wither on the value due to a shortage of personnel.

In addition, the House-passed tax reform bill and the tax package approved by the Senate Finance Committee would repeal the "three-year-recovery" rule which allows federal annuitants to receive their annuities tax free until such time as all of their contributions to the system have been recouped. This tax change, in itself, could encourage many skilled and experienced federal employees to retire prior to its effective date.

When considering the scope of the early retirement bill, the tax proposals to eliminate the three year recovery rule, and the difficulty the federal government is having in attracting certain personnel because of poor pay, I question the wisdom of implementing a government-wide early retirement program at this time. Further, Gramm-Rudman may trigger thousands of layoffs during the next few years, but no one knows for sure if or when any reductions-in-force will be required.

The Congressional Budget Office (CBO) estimates that passage of the early out program would increase payments to retirees by some $2.0 billion through fiscal year 1990. However, CBO indicates that this cost will be offset by employment reductions. CBO estimates that if OPM does not grant any hiring waivers, the net savings to the government would be $10.9 billion over five years. If, however, OPM grants widespread exemptions during the five-year period, the government could very well be left with a net cost increase.

Before implementing a government wide early-out program, I think that the potential adverse consequences of such a program need to be explored. For example, what agencies will experience a loss in personnel, how many personnel will be lost, and what programs will be impacted? If the government is experiencing difficulty in recruiting and retaining scientists and engineers and, in some localities, clerical employees, should the program exclude certain groups from taking advantage of an early retirement? Would the loss of experienced personnell ultimately lead to increased training costs for remaining personnel? I shudder to think of the massive disruption which might occur if there was an abrupt departure of 700,000 federal employees.

This proposed "early out" program may have merit if there is a future need to soften the impact of Gramm-Rudman cuts and avoid lay-offs, but in my view, enough is not yet known about its potential consequences. Perhaps, rather than opening the "barn door" for ¼ of the federal workforce, agencies could trim their personnel budgets through attrition or by asking OPM to approve early retirements for only selected groups of employees. If, in fact, there is a need to implement some type of an early out retirement program, I hope this hearing will provide us guidance on what approach would be best in order to preserve the level and quality of government operations and services.

OPENING STATEMENT OF SENATOR GLENN

Mr. Chairman, S. 2197, the Federal Employees' Optional Retirement Act of 1986, has been introduced as a humane and positive way to reduce our federal payroll. The measure is clearly a well-intentioned alternative to reductions in force (RIFs) or other steps to reduce personnel outlays, and I commend you for your initiative and foresight in this regard.

S. 2197 has merit and I agree with its approach in principle. It would follow the lead of a common private industry practice by achieving necessary cost savings through an early retirement window that provides certain employees with a liberal option to retire. This method has proven itself to be successful, cost-effective and perhaps most importantly, compassionate to older and younger workers alike.

However, in our Committee deliberations, there are two basic standards that we must apply to any federal retirement bill. The first is to provide adequate and fair pension benefits. The second is to advance retirement policies that help recruit and maintain an excellent and skilled work force. I am not confident that S. 2197 meets this latter goal and I do not think we can be safisfied until we pass both litmus tests.

When the House passed the tax reform bill, H.R. 3838, last year, we heard many anecdotal stories of the number of government scientists and engineers who might retire prematurely because the bill would eliminate the three-year tax-free recovery period for contributory pension benefits. The federal government already has severe recruitment and retention problems for these and other highly trained, technical positions. In my opinion, we simply cannot affort to lose these skilled and experienced people to early retirement. We already tend to lose too many of our nation's scientists and engineers to attractive jobs outside government.

I understand that the Chairman intended to address problems of this nature when he drafted S. 2197 to specifically exclude certain groups of government workers such as doctors, nurses, law enforcement agents and air traffic controllers. However, I am pleased that we are holding today's hearing to more closely examine this important issue. Because S. 2197 would give an estimated 400,000 federal civilian employees the opportunity to retire this year, I strongly believe we need an agency by agency break-down of what the impact of this bill would be, and who would be affected. I look forward to working with Chairman Roth on clarifying these issues.

Chairman ROTH. I am pleased to call forth as our first witness Mrs. Constance Horner who is, of course, Director of the Office of Personnel Management.

Welcome, Mrs. Horner. We are going to try to enforce a 5-minute rule, if we can, today. We have your testimony, and we will include all testimony in its entirety.

But I am anxious to get through the entire schedule this morning. We are delighted to have you, Mrs. Horner.

TESTIMONY OF CONSTANCE HORNER, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT, ACCOMPANIED BY JAMES W. MORRISON, JR., ASSOCIATE DIRECTOR FOR COMPENSATION

Mrs. HORNER. Thank you very much, Mr. Chairman.

May I take just a moment to tell you how grateful the administration is for the work you did to bring about a successful resolution of the Federal Employees Retirement System bill for new employees. I have had the pleasure and intellectual stimulation of observing you and Senator Stevens' and others' work on this bill for over more than 2 years now. It was a remarkable endeavor, very much reflective of high seriousness in governance, and we are very grateful to you. Thank you.

Chairman ROTH. Thank you very much. We do think that due to the efforts of many people that we have come up with a very excellent package for new Federal employees.

Let me say that as we develop new policy and new programs, I think a basic concern has to be to attract the kind of people that we want in Government and retain them, because the efficiency and effectiveness of our service depends upon the quality of the people who work for Government.

Please proceed.

Mrs. HORNER. Thank you. Mr. Chairman.

I have with me James Morrison, OPM's Associate Director for Compensation. I would like to submit my testimony [1] for the record and produce a summary version right now.

Chairman ROTH. It will be included in the record.

Mrs. HORNER. I am pleased to be here to discuss the administration's views on your bill to provide a government-wide opportunity for early retirement. I think the attractiveness of such an opportunity is obvious, both to employees who would be eligible and who want to retire and to those of us in both the administration and the Congress who share in the goal of reducing the size of the Federal Government.

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[1] Mrs. Horner's prepared statement appears on p. 73.

Your bill has stimulated a broad reexamination in the executive branch of the role of early retirement in Federal personnel policy. This discussion is now continuing, and we haven't yet reached conclusions on what to recommend to the President, but I hope that today we can give you an indication of our views at the present time and the direction in which our views are intended.

S. 2197 is based on an interesting and attractive concept, namely, that the Federal Government, in its efforts to reduce the size of the work force, should do so in the most humane way possible. Early retirement has been used by many leading private companies when they face the need for across-the-board personnel reduction and has been very successful from the perspective of management and employees alike, as I think you pointed out in your opening comments.

We do see, however, some potential pitfalls that would need to be addressed in a broad early retirement program. I should point out the retirement of an employee can save the Government and the taxpayer money, and that is very important. It is also important to recognize that if the retiree is replaced, the savings can turn into a cost.

Your bill highlights that concern, I think, in its 5-year freeze. The 5-year employment ceiling freeze does control this danger, but we believe we would need to have some greater flexibility within the context of a freeze in order to avoid the possibility of some harm to the national defense mission and other critical missions.

The President has asked for a reduction of 23,000 in our civilian work force, yet it is possible that three times as many would retire in a Governmentwide early out, including some of our most valuable and difficult to replace employees. It is possible this could have an adverse effect on some programs.

But we believe we could avoid these pitfalls if the legislation provided the President or his designee some authority to exclude from the early out an agency or program that the President believes should not be covered because of mission requirements and authority to decide what degree of hiring would be permitted for various agencies and programs to accommodate the needs of the Government and what could be shifting priorities.

Finally, Senator, we do feel that the legislated floors which are certainly not a part of your bill, but which do exist in other legislation, adversely affect the executive branch's ability to manage, and therefore, we would need, under the possibly more severe difficulties of managing under an early out, to see the removal of those floors, I think, for us to feel entirely comfortable with a Governmentwide early out.

As I said, your bill has stimulated some very satisfying, fruitful, and productive discussions within the administration, and I look forward to continuing to discuss these possibilities with you.

I am available now to answer any questions you may have.

Chairman Roth. Thank you, Mrs. Horner. I am glad to see that you and the administration are studying the proposal and looking at it, as I understand, in a favorable light.

As I indicated earlier, this is a first draft, and it does need to be revised. Let me just make a couple of observations with respect to the flexibility. I think that a carefully drawn amendment in this area is undoubtedly desirable. In reducing the work force, we do not want to make problems for Government; we want to improve its efficiency.

I think one of the reasons many companies have found they can do with fewer people is partly because of modern communication means, so that one person is able to do more than in the past.

In reducing the workforce, it seems to me that one of the long-term benefits is that we are going to be able to do more for those who serve in Government. I think that a critically important part of it, if we are going to attract the kind of people we want in Government and retain them—I understand there is concern about a possible brain drain—is to have the kind of proposed compensation and programs that make it rewarding to work and stay in Government.

So, I want to make that point very clearly, that what we hope to do, in part, with this program is to make the Government a better place for all employees. I think that is important to keep in mind.

Going to the question of flexibility, let me say this: I think there have to be some limitations. I don't see Congress, I don't care whether it is this President or some future President, giving entire discretion as to how large an agency is going to be.

So I would ask and urge you to do two things. We ought to try to look at each agency, a principal agency, and see how much we can reduce; and second, I agree that there still has to be some flexibility, because as large as this Government is, there are going to be situations not anticipated. So I am not opposed to the concept of giving some discretion somewhere in Government, as long as it is carefully drafted and Congress is able to set the policy and continue to oversee that policy.

My first question is, does that seem to be a reasonable approach to you?

Mrs. HORNER. I think that would be well worth our continuing to discuss.

Chairman ROTH. Let me just make this observation, too. Yesterday, the Agriculture Department, facing financial difficulties, announced it would not pay its employees for the Memorial Day and July 4 holidays. Given this action, would it not be better to have an early retirement option, easing these things rather than subjecting all employees to a loss of pay?

Mrs. HORNER. Mr. Chairman, in that particular case, I think the problem stems not so much from a Governmentwide difficulty as from the necessity for meat-packing inspection to occur every day of the year.

Your question gets to a more general one, which is: Would an early retirement authority prevent furloughs and RIFs', and I think the answer is yes, to some degree we aren't aware of.

Obviously, if Gramm-Rudman-Hollings enforces further budget reductions on agencies, that will have an effect on personnel cost levels, and that will require some degree of furlough, RIF, or early retirement.

Early retirement is a humane way to avoid the kind of RIF'ing and furloughing that I don't think anyone approves of as desirable personnel practices.

Chairman **Roth**. Do you have any idea for handling a special group such as the U.S. Postal Service, the Foreign Service, physicians, nurses, and others who work in patient care, for example, at the Veterans Administration?

Mrs. **Horner**. I think there are categories such as those which we have to handle with special care, and I think probably the preferable way to do it is, rather than legislating specific exemptions, because criticality can change with changing circumstances, would be to afford a degree of discretionary authority, probably with the President, to delegate as he sees fit.

That would be an ideal outcome from our perspective.

Chairman **Roth**. There has been some concern about possible weakening of the retirement fund because of this bill. Under current law, any increase in liabilities, because of this bill, would be amortized over 30 years. At the end of that time, the fund would be in the same position as if the bill had not been enacted.

I also understand that the liabilities would increase by less than 1 percent above their present level, and this increase would be funded over the next 30 years. Would you please comment on whether or not this bill would have any significant adverse effects on the fund?

Mrs. **Horner**. I think if it operated the way you described, it would not have an adverse effect.

Chairman **Roth**. Senator Eagleton.

Senator **Eagleton**. Thank you, Mr. Chairman. Mrs. Horner, about 3 minutes ago, in an answer to Senator Roth, you said something like the following, and I would like to clarify it with respect to RIF's and the relationship to early retirement. The question from Senator Roth was: Would early retirement alleviate a RIF problem or a potential RIF problem? And your words were something like, "to some degree we aren't aware of."

Could you elaborate a bit on that?

I am not trying to trip you up.

Mrs. **Horner**. No, I understand, Senator. What I mean by that is that we don't yet know what final conclusions the Congress and the President will reach with respect to the 1987 budget, and therefore, we don't know what kind of cuts we will be facing. We have a broad idea, but we don't have appropriations that we know of agency-by-agency, for instance.

Senator **Eagleton**. That is true, but I think Senator Roth's question was this, or trying to bring out this point: How much would we avoid in RIF's if we enacted the Roth bill?

Mrs. **Horner**. There is really no way to know that precisely, and I should elaborate a little on that. For instance, there may be some agencies where there would be large acceptance of the early-out authority, agencies which would then have no necessity to RIF whatsoever, in fact, might find themselves understaffed from the perspective of their missions.

Other agencies might not see large adoption of the early retirement opportunity, and that would simply be different. So we can't tell, first of all, we don't know. We have a CBO estimate of, I think, 60,000, it might be 60,000 Federal employees who would take up this opportunity, but we all know that that is based on assumptions we can't demonstrate right now. We don't really know, short of polling everyone. Even those who might take advantage of this opportunity do not know until they try to actually see what they are going to do next.

Senator **Eagleton**. I know we can't pinpoint it down to single digit numbers, double digit, even triple digit, but before we embark on a rather significant program, shouldn't we have a better idea of what the consequences are in terms of numbers? That is, is it good enough to pass a bill and say, "Well, we will just see"?

Mrs. **Horner**. Well, Senator, if the goal is to reduce the cost of Federal Government and to reduce the size of the Federal workforce and to accommodate, in advance, the possibility of injury to some Federal employees who would be RIF'd and to encourage the retention of young Federal employees, then I think one could make a judgment on balance that it is worth taking the risk of not knowing in advance precisely what the effect would be.

As I have mentioned, the administration has a number of concerns.

But if we were to decide, on balance, that these were very strongly worthwhile goals, it might be worth taking the chance of some adverse effect on some agencies.

Senator **Eagleton**. Would it be possible in the next few weeks, without putting you to such extraordinary duties that you would have to drop everything else that you are doing——

Mrs. **Horner**. To ascertain how many people?

Senator **Eagleton** [continuing]. To have you folks make an analysis, and we are not holding you to precise numbers, which would give us a little better guidance as to the consequences of this bill, how many people might exercise this option, and, can you give us a range in certain categories. If you want to do it at certain levels of salary or what-have-you or the best way you think you can do it, I would like to know what I am about to vote on.

Mrs. **Horner**. Senator, we can certainly provide you with the numbers, agency-by-agency, of people who would be eligible under the bill, but we can't predict how many would decide to take advantage of that eligibility, short of polling them all, and then feeling that we can rely upon their answers.

[The information referred to follows:]

Retirement Eligible Statistics

Agency	CSR Population	Early Out Eligibles	Regular Retirement Eligibles	Total Population*	Planned FY87 FTE Cuts/Increases*
Air Force	198,292	36,751 (18.5%)	17,456 (8.8%)	See "DOD (total)"	
Agriculture	85,718	13,692 (16.0%)	6,577 (7.7%)	108,750	- 10,250
Army	280,779	44,381 (15.8%)	25,226 (9.0%)	See "DOD (total)"	
Commerce	27,382	4,479 (16.4%)	2,275 (8.3%)	34,440	- 610
DOD (excl. military depts.)	66,715	10,731 (16.1%)	6,872 (10.3%)	See "DOD (total)"	
DOD (total)	808,611	129,088 (16.0%)	70,131 (8.7%)	1,062,923	+ 2,538
Education	4,038	498 (12.3%)	257 (6.4%)	4,579	- 79
Energy	14,718	2,192 (14.9%)	1,000 (6.8%)	16,218	- 497
EPA	9,998	920 (9.2%)	445 (4.5%)	13,361	- 200
GSA	21,298	3,267 (15.3%)	2,283 (10.7%)	25,406	- 2,771

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* Statistics taken from Special Analyses — FY87, Table I-1. "Full-Time Equivalent of Federal Civilian Employment".

Retirement Eligible Statistics

Agency	CSR Population	Early Out Eligibles	Regular Retirement Eligibles	Total Population	Planned FY87 FTE Cuts/Increases
HHS	115,455	13,251 (11.5%)	6,827 (5.9%)	128,483	- 4,847
HUD	10,743	1,475 (13.7%)	1,208 (11.2%)	11,720	- 432
Interior	55,212	8,334 (15.1%)	3,509 (6.4%)	72,015	- 1,710
Justice	26,939	2,030 (7.5%)	1,093 (4.1%)	64,266	+ 1,554
Labor	15,854	1,732 (10.9%)	1,400 (8.8%)	18,549	- 394
Navy	262,825	37,225 (14.2%)	20,577 (7.8%)	See "DOD (total)"	
SBA	3,605	554 (15.4%)	416 (11.5%)	4,219	- 3,512
State	3,957	500 (12.6%)	336 (8.5%)	26,088	+ 849
Transportation	53,806	13,350 (24.8%)	4,186 (7.8%)	60,938	- 1,957
Treasury	98,261	9,331 (9.5%)	5,732 (5.8%)	126,467	+ 3,120
VA	178,102	16,174 (9.1%)	13,854 (7.7%)	221,051	- 8,985

Senator **Eagleton**. Have any States embarked upon a program such as this?

Mrs. **Horner**. I don't know. We could find that out and provide that.

Senator **Eagleton**. Any municipalities that you know of?

Mr. **Morrison**. I am not aware of too much of this in the Government and that type of sector, sir. Most of this has been experienced in the private sector, where they have greater flexibility.

Senator **Eagleton**. What would be your rough guess, that is as soft as I can put it to you, of the experience in the private sector with a program such as this that would be comparable to what might happen in the Federal sector?

Mrs. **Horner**. I know that in the private sector, management has had the capacity to do some very fine tailoring of who goes and who stays. I think it would be very difficult to make any comparisons, other than in the motivation and some of the outcomes.

Senator **Eagleton**. Do this for me: Make a check and see if any of the 50 States, in the past 5 years, have done anything comparable to this, or if any of the major metropolitan cities or areas have; say, the top 20 or thereabouts.

Mrs. **Horner**. We would be glad to do that.

I just recalled that the Canadian Government has had an early retirement situation such as Senator Roth proposes and has been very pleased with the outcome.

Senator **Eagleton**. All right. Would you take a look at that and see if there is anything we can draw from that. It might give us a little guidance as to experience in the Canadian system to tell us what might happen here if this bill becomes law?

Mrs. **Horner**. I would be happy to.

[The information referred to follows:]

From the informaton available to us, we have not been able to identify any case in which a State or major municipal government has provided a governmentwide early retirement opportunity.

The Canadian Government did have an early retirement opportunity for senior public servants last year. The program and its results are summarized in the attached press release from the Treasury Board of Canada.

Treasury Board of Canada Secretariat
Conseil du Trésor du Canada Secrétariat

Ottawa Canada
K1A 0R5

85/29

For Immediate Release

November 14, 1985

VOLUNTARY EARLY RETIREMENT PROGRAM FOR SENIOR PUBLIC SERVANTS: FINAL PROGRAM RESULTS

MONTREAL - Treasury Board President Robert de Cotret today announced that the second and final phase of the federal government's Voluntary Early Retirement Incentive Program for senior public servants has attracted 205 additional applications. Assuming all 205 applications meet Program requirements, this would bring to 535 the total number of retirements resulting from the Program.

Mr. de Cotret announced the Program results in a presentation to a Montreal management forum attended by representatives of business, accounting and legal professions from the Province of Quebec.

The Program results meet, and indeed exceed, the objective of 400 - 500 retirements set by Treasury Board earlier this year. These retirements will help to resolve a serious problem resulting from reduced turnover among senior officials in recent years and to achieve, as well, significant payroll savings.

Mr. de Cotret said: "The success of the Voluntary Early Retirement Incentive Program will open up the career paths of talented managers who would otherwise have seen their aspirations for promotion and greater responsibility thwarted by a lack of movement in the senior ranks. The Program should help revitalize the Public Service, improve morale, promote movement between the private and public sectors, and enhance - in a businesslike way - the determination and capacity to tackle the important issues which the government faces today."

Total cost of the Program is expected to remain within the $25.1 million original cost estimate. Of the 535 vacated positions, at least 200 will be eliminated. This will result in a recurring annual payroll saving of $15.6 million, permitting the Program to pay for itself within two years. The remaining job vacancies will be filled with high calibre men and women from both within and outside the Public Service.

Canada

.../2

The average incentive allowance paid under the Program to date is 28 weeks' pay exclusive of existing severance pay entitlements, which are earned by the employee at a rate of one week's pay for each year of service up to a maximum of 28 weeks.

Phase One of the Program, which concluded on July 5, 1985, was offered to senior managers, executives and Deputy Ministers who were already eligible to retire with full pension benefits, but who had not indicated their intention to do so.

Phase Two was directed at officials of the same rank who were eligible to retire on a pension which will be reduced by actuarial penalties based on age and number of years of pensionable service short of that required for a full (unreduced) pension. This pension penalty will commonly range from five to 50 per cent.

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For further information:

Jean-Pierre Kingsley,
Deputy Secretary,
Personnel Policy Branch,
Treasury Board Secretariat
Tel. 613-995-1200.

Senator **Eagleton**. Moving on step-by-step, let's get to the goals or the supposed goals of this bill.

Has OPM found significant evidence of widespread overstaffing in the Federal Government?

Mrs. **Horner**. Senator, that has been an endemic contention by the administration based on a sense that we are not anywhere near the productivity level that we need to be at. Now, as to evidence——

Senator **Eagleton**. I admire your choice of words. You have said "endemic contention". Now, you have been on the job several months. It is now, in your opinion, an endemic conclusion? [Laughter.]

Mrs. **Horner**. May I supply a response? I would like to see precisely what methods we have used to substantiate that contention and what evidence we have adduced in support of it.

Senator **Eagleton**. Is it not true that in the past 10 years, in terms of total numbers of employees, the numbers in the Federal Government have remained almost constant, whereas contrasted with State, county and municipal government, there has been an explosion in the number of public employees?

Mrs. **Horner**. I am not certain, but I believe that is the case. There has been a great growth, I know, in State government.

Senator **Eagleton**. Is it not true that there has been virtually a constant level of Federal employment over the last two decades?

Is it not true that since 1968 the absolute size of the Federal work force has remained relatively stable at slightly less than 3 million persons, while State and local government have grown to about 13 million employees, or from about 67 percent to 82 percent of the Nation's public workforce?

Mrs. **Horner**. I think roughly, yes, that is true.

Senator **Eagleton**. So one thing is certain: There has not been an endemic explosion in the growth of Federal public employment in the last two decades.

Mrs. **Horner**. That is true. We have had a condition of relative stasis in numbers in the face of technology improvements that might have predicted a reduction in those numbers and which we would continue to seek to achieve.

Senator **Eagleton**. To the extent that there is overstaffing in Federal Government, in what areas is that overstaffing?

Mrs. **Horner**. In the grade levels GS-11 through 15, the Federal Government has experienced, in recent years, precisely what the private sector has experienced, which is an excess of middle management, and, in fact, the private sector is in the process of what is probably a 5- to 8-year endeavor to reduce the size of middle management, what would correlate to our GS-11 through 15.

An early retirement bill, we estimate, would make eligible—I think 50 percent of those eligible would be in that excessively staffed area, the GS-11 through 15, what we call the bulge.

Senator **Eagleton**. That is by grade level category.

Mrs. **Horner**. Yes, rather than occupation.

Senator **Eagleton**. Have you done a study by department or occupation? That is, is X department considerably overstaffed, whereas Y department is not overstaffed?

Mrs. Horner. I think OMB sets the employment ceilings, so I think the question might be better directed there, although I can say that I am aware, for instance, of studies which look at the number of personnel officials relative to employees and the number of supervisors relative to employees, so that it has been done more by that kind of category than specific occupation.

Senator Eagleton. Could you summarize that last answer again, and then I am going to yield back to Senator Roth?

Mrs. Horner. Sure. OMB sets employment ceilings for agencies and components of agencies, so that OMB would have a Government-wide assessment for its negotiations with agencies of where overstaffing is occurring by occupation within agencies.

Senator Eagleton. So that I understand it, within the scope of your knowledge, expertise and authority, all you can tell us about potential overstaffing is that there is a bulge in the GS-11 to GS-15 level, but you cannot break it down into skills, department areas, or what-have-you?

Mrs. Horner. I may be able to do that, and I would like to ask for permission to supply a response for the record, if I am able to do so with any precision.

[Mrs. Horner supplied this information subsequent to the hearing:]

We do have data which shows the bulge, by agency and by agency subcomponents, and we track it over time. For example, our most recent figures, as to the percentage of the work force in the bulge band, range from a low of 17.5 percent in one major agency to a high of 71.9 percent in another. We track these figures along with other significant personnel management indicators. We analyze all the data and work closely with agencies in order to understand the dynamics of agency missions and unique requirements which may impact on the bulge. We know, of course, that some agencies because of their missions require higher graded personnel and we take this into account in our analysis. Generally speaking, however, we feel that there is a problem Governmentwide in this area.

With respect to occupational data we can track and monitor the grade structure and numbers of all major occupations through our statistical and analytical techniques. Again grades or we realize that, because of mission requirements some agencies require higher greater numbers than others in given occupations. Nevertheless, some useful and productive analysis in this area can and is being done. We know for example that the Governmentwide average grade for the Budget Analyst is 10.69. Among the major agencies, however, the range is 10.20 to 12.48. As another example, the Criminal Investigator position ranges from 9.33 to 13.06, with a Governmentwide average of 11.87.

I hope this answers your question. As you can see we have the kind of information we need to monitor agencies in the "overstaffing" area, subject of course to intelligent and thorough analysis of individual agency situations. We are doing this as part of our ongoing evaluation program.

Chairman Roth. Do you see any gains in productivity among the Federal workforce, primarily because of automation and other uses of computers and modern technologies?

Mrs. Horner. Yes, there are gains of productivity. The problem we confront is that we are not free simply to reduce the size of the Federal workforce every time we have a productivity gain.

The process of reducing the size of the workforce is protracted and difficult and time-consuming, whereas productivity gains may be easier to put in place.

Chairman Roth. Wouldn't this early retirement approach facilitate that in a very compassionate way? As a matter of fact, isn't it true that there is a very warm response to this proposal from employees themselves?

Mrs. HORNER. Yes, Mr. Chairman. It is my understanding that employees are very supportive of and enthusiastic about this proposal, and as I say, we are continuing to discuss its benefits and the potential pitfalls.

Chairman ROTH. Isn't it also true that it serves the interests of those employees that continue to serve or are later hired and that by a smaller workforce, we would be able to better meet the competition in attracting the best and the brightest?

Mrs. HORNER. Yes, I think there is a great possibility that that would be the consequence. We have to think about the managers' concerns as well as the employees', but certainly, from the employee perspective, that would be the case.

Chairman ROTH. But isn't that true from the management standpoint, as well? Isn't one of our real concerns that in many of these areas, we are having great difficulty in preventing brain drain?

Mrs. HORNER. Yes.

Chairman ROTH. That many of our best able people are seeking employment elsewhere? Wouldn't this open the door to try to develop the kind of programs to retain and to attract the best and the brightest?

Mrs. HORNER. Yes. I think, frankly, it would be a shot in the arm. I think that we need to consider Presidential flexibility in determining where the mission of the agency can best take advantage of this opportunity and where it would be inadvisable.

Chairman ROTH. Let me make one observation. You mentioned the Department of Defense, who, I know, don't like anyone to touch anything they do in any way at any time in any place.

Yet, I think, as a result of the Packard study, one of the complaints or criticisms is that there are too many people, for example, in the Pentagon; that a reduction could well improve efficiency there. Are you familiar with the Packard study?

Mrs. HORNER. Yes, I am, broadly, Mr. Chairman.

Chairman ROTH. I just wanted to point out that that observation is made, so that I don't look upon the Pentagon as being an agency that should be exempt from it, although we would get our usual reaction: I am sure they think so.

One of the concerns, and I think it has come particularly from the unions, is that they are concerned that this bill might be used as a way of freeing up work to be contracted out. Just let me speak as the author of the proposal, that that is not the intent of the chairman.

But I would like to have you comment on that concern that I know will be expressed later.

Mrs. HORNER. Yes, Mr. Chairman, we would like to make absolutely sure that there is no further infringement of the executive branch's authority to contract out contained within the bill, and I recognize what you are saying, but we would want to make sure that language did not place the burden of decision anywhere, further constrain the decisionmaking by further requirements or place the burden of proof elsewhere from where it is right now.

Chairman ROTH. On the other hand, the purpose of this bill is not to promote contracting out; would you agree with that?

Mrs. **Horner**. Yes.

Chairman **Roth**. Senator Eagleton?

Senator **Eagleton**. Mrs. Horner, Federal pay lags behind the private sector by about 20 percent. The pay hearings that were chaired by Senator Stevens emphasized that the Federal Government is unable to compete with the private sector in attracting certain personnel such as scientists and engineers.

Also, in some Federal agencies across the country, clerical employees are paid special rates in order to compete with the private sector. Under these circumstances, would it be better to target a temporary early-out program to only selected groups of Federal employees?

Mrs. **Horner**. Senator, first of all, I would have to say that we don't agree that Federal pay lags private sector pay by 20 percent, and, in fact, we think the methodology that produces that figure is flawed in ways we are undertaking to correct right now, both administratively and, we hope, legislatively.

That being said, I am often asked if Federal employees are paid too much by people who think they are, and also I am asked, are Federal employees paid too little by people who think they are. The answer is some are paid too much, some are paid too little, and some are paid just right.

What we need is a system which is more flexible and allows discriminating decisions to be made with respect to pay.

Now I have forgotten what the final question you asked was. Could you repeat it, please?

Senator **Eagleton**. I pointed out that the Federal Government has difficulty, for instance, attracting scientists and engineers; is that not the case?

Mrs. **Horner**. In some cases, in some locations.

Senator **Eagleton**. If we have this early retirement, and if a lot of scientists and engineers take early retirement, would that not compound an already existing problem?

Mrs. **Horner**. In order to cope with that kind of problem, we would need to have some flexibility. Some opportunity would have to be available to the President to designate specific occupations as protected from early retirement.

Senator **Eagleton**. As I read the bill, excluded from this overall early retirement program are Members of Congress—we can get more of those. [Laughter.]

Employees of the judicial branch, and I can tell you there is no shortage of those without reducing their salary now; physicians and nurses. I know we are short of physicians. I have been out at Bethesda Hospital, and that was a few months away from Dr. Billig. [Laughter.]

So I know we are short of all kinds of surgical physicians and all of the surgical specialists. We have got a lot of pediatricians, but we are terribly short in all services—in all of the surgical specialists. We are short of nurses.

Then it says the bill exempts nonsupervisory law enforcement agents, air traffic controllers and I know we are short of those because they are trying to hire some; and firefighters.

Aren't there other specialists, work areas, et cetera, where the Federal Government is having difficulty attracting people?

Mrs. **Horner**. There are, and Senator Roth's proposal permits OPM to grant a waiver where such occupations are identified.

There are some now that are under special pay rates. This changes from time to time and place to place, but we will provide for that.

Senator **Eagleton**. Could you give us a list of those categories, of those skills wherein the Federal Government is having difficulty obtaining qualified people?

Mrs. **Horner**. Yes. I can give you a list of occupations.

Senator **Eagleton**. That will give us a hint, at least, a strong hint of areas wherein a waiver will be granted. That is, the early retirement option will not be extended to said people.

Mrs. **Horner**. Yes, I can give you a list of occupations where a special pay rate has been granted which provides for a critical shortage.[1]

Senator **Eagleton**. In a report dated July 24, 1985, the General Accounting Office concluded that reductions in force can sometimes be more costly to agencies than true attrition and furloughs.

In your opinion, if Gramm-Rudman mandates extensive personnel cuts, what is the quickest way to reduce the size of the Federal workforce?

Mrs. **Horner**. I would probably have to say a combination of methods appropriate in different circumstances. For instance, early retirement definitely saves money over RIF. Over a 5-year period, we would save $138,000 per early retired employee, and only $86,000 for a RIF'd employee, so there would be a definite fiscal advantage to broader early retirement opportunities.

In the event that you expect one-to-one correlations, in other words, if there would not be more early retirees than there would have been potential RIF individuals, attrition, through a freeze, is obviously a highly desirable way to go about doing this. In some cases, RIF's are desirable for management reasons, when you wish to abolish a job or a unit of jobs because the work is no longer needed. It makes sense even if it does cost more, because for the long term, you have got to stop filling that job.

Senator **Eagleton**. Under the Roth legislation, OPM would have the authority to waive hiring restrictions for essential employees and those services are financed through user fees. What criteria would be established so that waivers would be applied equitably across all agencies?

Mrs. **Horner**. We would have to do that through—I think we would prefer to do that through the delegation of Presidential authority, but if it were to be done by an OPM waiver, we would have to devise regulations to ensure that cases were handled on an equitable basis.

The designation of criteria would provide an equitable outcome.

Senator **Eagleton**. You mentioned that in your judgment, employees were, to use your words, "enthusiastic" about the prospect of this early retirement. How do you detect that?

Mrs. **Horner**. Conversations in passing and also media reports.

Senator **Eagleton**. I'm sorry?

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[1] See p. 60.

Mrs. **Horner**. Also, media reports to that effect.

Senator **Eagleton**. Can you detect how much of that enthusiasm relates to disenchantment with employees over the treatment that they have received in the past years, public abuse, public condemnation, public criticism?

Mrs. **Horner**. I hear some of that. I also think that it is human nature to want to have expanded opportunity, and this represents an expanded opportunity for choice by employees, so it is, naturally, a desirable thing.

Senator **Eagleton**. I would very much like the material that I have requested. I think it would be most useful, Mr. Chairman, because I think we have to be very careful, if we go forward with this legislation, that in so doing, we do not compound already existing problems with respect to hiring people into certain specialty areas.

There are these areas that are already known to be troublesome. I know you would not want to make a bad situation worse, so I think that is prudent. Also, I think it is important that we have some better handle on just what might happen if this occurred, whether it is the Canadian experience or some other experience that we can take a look at out in the private sector, or a State or municipal area that has undergone a plan like this.

I know it is hard to guess, it is hard to say that this person will take the option and the other person won't. But if we can look at some experience, situations in other areas, it would at least be helpful to me.

Finally, I ask unanimous consent that my prepared statement with respect to this subject matter be printed in the record at the outset of the hearing.[1]

Chairman **Roth**. Without objection.

Senator Gore, do you want to question?

Senator **Gore**. Yes, I do, Mr. Chairman. I apologize to you and our first witness.

Chairman **Roth**. I would point out, just so that you are aware, that Mrs. Horner has to leave at 10:30.

OPENING STATEMENT OF SENATOR GORE

Senator **Gore**. Fine I will be very brief in my questions. I apologize for being late. One of my other committees is also meeting this morning.

I have an opening statement, Mr. Chairman, that I will simply put in the record, with your permission.

Chairman **Roth**. Without objection.

Senator **Gore**. Accompanying my opening statement is a letter. At a previous hearing, I asked David Packard, whom we have turned to for advice on some of these issues occasionally, to comment on certain aspects of S. 2197 that I think needs some careful examination. He has responded in a letter. I ask unanimous consent that Mr. Packard's letter appear immediately following my opening statement.

Chairman **Roth**. Without objection.

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[1] See p. 3.

[Senator Gore's prepared statement and the letter referred to follow:]

PREPARED STATEMENT OF SENATOR GORE

Thank you Mr. Chairman.

I want to reiterate the praise which I expressed some weeks ago for your efforts and those of my colleague on the Civil Service Subcommittee, Ted Stevens in introducing and pursuing personnel and management reforms in the Federal Government.

Your leadership has encouraged those of us who share your interest in these important issues. Your commitment to these issues has left its mark on a number of reforms, not the least of which is the supplemental retirement legislation which is nearing completion.

Today, we focus on S. 2197, your optional early retirement legislation. This bill is yet another example of your willingness to address the budgetary and personnel demands of the Federal Government. I support your efforts and I look forward to working with you toward an equitable treatment of this issue.

The early out concept, I believe, is an excellent idea for a number of reasons. To be sure, a significant number of employees who would not be able to retire from federal service. The budget savings generated from these departures would be significant and desirable, particularly given the current budgetary climate. To the extent that the budgetary savings from these departures would preclude the need for reductions-in-force, they would also be welcome.

There are several aspects of S. 2197, however, that give me pause. Although the bill's 5-year hiring freeze would yield significant budgetary benefits, the freeze may serve to compound difficulties that we are experiencing in retaining talented senior employees. Indeed, many of the very individuals who would find this legislation attractive are the ones we can least afford to lose.

I asked David Packard, to whom we have turned for such advise on a number of occasions, to comment on this aspect of S. 2197 when he appeared before the Civil Service Subcommittee to testify on several alternative pay bills which are pending before the Subcommittee. He responded in a brief letter and I ask unanimous consent that a copy of his letter be included in the hearing record at the conclusion of my remarks.

In his letter, David Packard expresses concern that encouraging senior managers in the scientific and engineering fields to retire early will create a vacuum because much of the experienced talent is no longer with the government at the middle to lower levels. He concludes that "[e]ncouraging early retirement under the current circumstances will probably exacerbate an already difficult situation."

Another concern that I think we must address is the application of this early out policy on such a broad scale. The approach provided for in S. 2197 ignores the possibility that certain agencies may be uniquely unable to fill the void left by senior employees who would elect to retire early. The resulting risk is twofold: an already limited pool of talent will shrink further, and the costs of training adequate replacements will offset some of the savings gained through early retirements.

Although I believe that these and other aspects of S. 2197 may warrant further scrutiny and modification, I am pleased to see that we have a diverse array of witnesses who will be providing valuable input on these issues. I look forward to hearing the testimony of these witnesses and working toward an appropriate solution to the important needs that this legislation addresses.

PRESIDENT'S BLUE RIBBON COMMISSION
ON DEFENSE MANAGEMENT,
Washington, DC, May 1, 1986.

Hon. ALBERT GORE, Jr.,
U.S. Senate, Washington, DC

DEAR SENATOR GORE: This letter is in response to your request made during the April 15, 1986 hearing before the Subcommittee on Civil Service, Post Office and General Services. At that time you asked if I would submit my views on S. 2197, the Federal Employees' Optional Early Retirement Act of 1986.

I have reviewed the bill, and while I applaud the intent to reduce the Federal civilian payroll. I have some concerns as to its impact on the overall quality of the work force. I cannot speak for the other occupations, but among scientists, engineers, and key Defense acquisition personnel, it is my understanding that many highly qualified senior people are still in government service because they are not quite eligible for retirement. In most cases these are people who joined the government 20 to 25 years ago when pay and benefits were roughly comparable to those in the private sector. However, as government pay has lagged, more and more middle management people have left for private industry. Since these people tended to be the brightest and the best, they left behind a gap in experienced talent that has become increasingly difficult to fill.

I am concerned, therefore, that encouraging senior managers to retire early will result in a vacuum that cannot be filled from inside because the experienced talent is not there, and cannot be filled from outside because government pay is not competitive. All of this argues for prompt legislative action to reform the Civil Service and improve the pay situation before we have a crisis on our hands. Encouraging early retirement under the current circumstances will probably exacerbate an already difficulty situation.

Sincerely,

David Packard.

Senator **Gore**. Just briefly, Mrs. Horner, you have noted that the 5-year hiring freeze contained in S. 2197 is excessively rigid; correct?

Mrs. **Horner**. We would prefer to see some flexibility for the President to provide exemptions.

Senator **Gore**. I agree that it is excessively rigid. You propose that more authority over early retirements be given to the President as a solution to this problem.

How would you react to a hiring freeze of shorter duration?

Mrs. **Horner**. We would still need flexibility, even with a hiring freeze of shorter duration, to protect critical areas, I think. A hiring freeze of that duration is something we haven't any experience with, to my knowledge, but I think that it is a testimony to the bill's intention not to put us into the bad binding of having a lot of people leave, costing some money to the retirement fund, and then having everyone rehired behind them; and it is a statement of strong principle in this regard which we very much respect.

The duration is something we might need to talk about, but the principle is correct.

Senator **Gore**. Other questions that I intended to ask have been pursued by Senator Eagleton, but I might submit further questions in writing to you if you could respond. I think that this bill, or the concept, is an excellent one for a number of reasons. A significant number of employees who would not be able to retire without such a bill would welcome a one-time window to retire from Federal service, and the budget savings generated would be significant and desirable, given the current budgetary climate. To the extent that the savings would preclude the need for RIF's, they would be welcome.

But there are aspects of this bill that give me pause. Although the 5-year hiring freeze would yield budgetary benefits, the freeze may serve to compound difficulties that we are experiencing in retaining talented senior employees. Indeed, many of the very individuals who would find this legislation attractive are the ones that we can least afford to lose.

I am going to ask the GAO a number of questions about these and other matters and ask them for some additional examination of these concerns, even as we pursue the excellent concept embodied in the bill.

I appreciate your testimony today, and I will cut my questioning short so that you can go on out of here.

Chairman ROTH. Thank you very much, Senator Gore. We will keep the record open for 24 hours so that further questions can be submitted. I appreciate your writing.

Senator GORE. Thank you very much for meeting here, Mr. Chairman.

Senator EAGLETON. Mr. Chairman, I have a statement from Senator Glenn. I ask unanimous consent that it be printed in the record at the outset of the hearing.[1]

Chairman ROTH. Without objection, so ordered.

We next have Rosslyn Kleeman, the Associate Director of GAO, and Robert E. Shelton, Deputy Associate Director, General Government Division, GAO.

TESTIMONY OF ROSSLYN KLEEMAN, ASSOCIATE DIRECTOR, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY ROBERT E. SHELTON, DEPUTY ASSOCIATE DIRECTOR, GENERAL GOVERNMENT DIVISION, GAO

Ms. KLEEMAN. Thank you very much, Mr. Chairman. We are pleased to be here today to talk about your bill, S. 2197, and I will submit my full statement[2] for the record with your permission and try to summarize as briefly as possible so we have time for questions.

Chairman ROTH. Thank you.

Ms. KLEEMAN. Normally, about one-third of all employees eligible for regular retirement retire each year, and it is difficult in today's climate to estimate how many employees would elect early retirement. Estimates that we have range from 15 to 30 percent of those eligible. Also, the proposal being considered by the Congress to change the way in which Federal pensions are taxed could be an additional incentive for employees to take advantage of an early retirement opportunity.

The early retirement of some Federal employees under the bill could minimize or substitute for reductions in force that agencies may face as a result of budget reductions associated with the Balanced Budget Act of 1985.

Furthermore, the proposal could save billions of dollars if the retiring employees are not replaced. On the other hand, agencies' programs could be seriously disrupted if large numbers of Federal employees retired and could not be replaced considering the time required to seek and obtain waivers from the hiring freeze. In addition to the normal recruiting and appointment process, it could take over a year or longer to replace key employees. Also, since the Government would lose its most experienced workers, we expect, agencies' training costs could be expected to increase.

It must also be recognized that little, if any, savings would result from the early retirements if large numbers of waivers from the hiring freeze are granted. We are particularly concerned that the bill is not targeted to grant early retirements only where necessary or desirable.

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[1] See p. 4.

[2] Ms. Kleeman's prepared statement appears on p. 79.

For example, the Postal Service would experience only small budget cuts under the Balanced Budget Act. Yet as many as 100,000 of their employees could take early retirement. Most of these would have to be immediately replaced in order to not seriously disrupt mail service.

If the committee is convinced that an early retirement bill is appropriate, we suggest a more focused early retirement option.

For example, Congress may wish to consider waiving for a limited period the current requirement that a substantial reduction in force is required before early retirement can be authorized.

Agencies could then seek approval from the Office of Personnel Management to offer early retirement to selected groups of employees, along with restricted hiring. Agencies could be required to show that such early retirements would not seriously disrupt their programs and would result in net overall savings to the Government.

I think that is a summary of what we have to say. We would be glad to answer any questions you might have.

Chairman ROTH. Let me start out again, as I said with the prior witness, that the first draft is exactly that, a first draft. We are all in agreement as a result of these hearings and general comments that we think that the bill can be improved upon.

I would like to ask you something. The bill attempts to ensure that budget savings will actually materialize by requiring agencies to decrease their personnel ceilings by the number of people who retire during the window period. The bill then gives OPM authority to waive this restriction as needed.

Do you have any idea of what percentage of those retiring would need to be replaced during the next few years?

Ms. KLEEMAN. No, we really don't. One of the things that we have found over the years is that there is very little good workforce planning done in the Federal Government. The Office of Personnel Management has done very little along this line, so we don't have very good figures on what the actual situation would be.

Even in the numbers who might retire early, the numbers that we have been given from the Office of Personnel Management, the latest estimates of who is eligible to retire now are from 1982, and the situation could have changed quite a bit since then.

Chairman ROTH. Would the bill be workable without controls on the replacements?

Ms. KLEEMAN. No; I think you probably need some controls, but if you go the waiver route, as I said in our statement, it might take quite a while. It might be better to have a more targeted approach, in general.

Chairman ROTH. What about a targeted and waiver approach jointly? I agree that we ought to try to target to the extent we can. At least that is my thinking now. Even though you do the best job possible, there are going to be situations arising that won't be anticipated, so there will have to be some kind of waiver, won't there?

Ms. KLEEMAN. I would suspect so.

Chairman ROTH. Do you have any opinion on this? The prior witness, I think, recommended that the waiver notice be given to the Office of the President instead of OPM. Do you have any thoughts on that recommendation?

Ms. Kleeman. I thought I heard her suggest that it be delegated, perhaps, from the Office of the President to—well, the usual delegation of personnel matters would be to the Office of Personnel Management.

Chairman Roth. Should it be centralized in one agency or one office, wherever that may be?

Ms. Kleeman. I would think there should be some control, some Governmentwide control.

Chairman Roth. I would be inclined to agree with that, because I suspect the individual agencies might be very loose in their implementation.

Ms. Kleeman. I would leave it up to the agencies to propose to the Office of Personnel Management the need for such a waiver or even the need for the early retirement option.

Chairman Roth. Well, I would agree with that. I think there is a need for participation by the agencies involved. I don't want to pick on one agency in particular, but I suspect the Pentagon would come out that they don't have enough employees, but maybe not.

Ms. Kleeman. Maybe.

Chairman Roth. Senator Eagleton.

Senator Eagleton. Ms. Kleeman, thank you very much. I fully subscribe to the thrust of your testimony. I think Senator Roth does, as well.

I think conceptualizing this matter, I think we have got to, to use your words, do it perhaps in a more focused, and then later on, you said targeted way to the groups, et cetera, and I think that that is very important.

Has GAO had occasion in past years to make an analysis of skill areas in which the Federal Government is having difficulty obtaining individuals?

Ms. Kleeman. We haven't until now. We are just beginning to look at that very subject now.

Senator Eagleton. You are beginning to look at it. When do you think you might have your study complete, because I think it might be very helpful to us?

Ms. Kleeman. Probably about 6 months. We can perhaps do it in a little less time if we were more specific on certain occupations.

Senator Eagleton. What worries me, and I think you were in the room when I was talking with Mrs. Horner——

Ms. Kleeman. Right.

Senator Eagleton [continuing]. Are there skill areas, at least you read about them in the newspapers, and I hear about them by one channel or another, where the Federal Government is having difficulty getting this, that, or another skill. Obviously, in this piece of legislation, we don't want to compound an already serious problem.

So if we had a study, an analysis of deficient skill areas where the Government was short, it would help us in doing the very thing that you recommend that we do, that we focus, target, et cetera.

Ms. Kleeman. Our current look at this subject is related to special pay for scientists and engineers.

Senator Eagleton. Is it just limited to scientists and engineers?

Ms. Kleeman. It is quite narrow, but we can, perhaps, expand that some to include others.

Senator **Eagleton**. I sure wish you would. I think it goes beyond scientists and engineers. We read more about that. That makes more headline news, but I think it goes a bit beyond that. I know it goes, for instance, to air traffic controllers.

Ms. **Kleeman**. We are not even convinced that scientists and engineers are a problem in many cases.

Senator **Eagleton**. You are not convinced that they are in some cases? It depends on what science and what engineers and what kind of agency.

Ms. **Kleeman**. Right; that is right.

Senator **Eagleton**. I also asked Mrs. Horner if she had any access to studies that had been made of the consequences of legislation such as this, whether the States had done this, cities had done this. She mentioned the country of Canada. Do you know of any studies that have been made that would give us some guidance as to the consequences of what may happen if we embarked on this?

Ms. **Kleeman**. I don't know of any studies, but there has been one recent experience in the Federal Government, and that is the Forest Service was granted early-out permission, and they found that about 15 percent of those eligible did retire.

Senator **Eagleton**. Oh, that is good. When did they do that?

Ms. **Kleeman**. That was——

Mr. **Shelton**. Last year.

Senator **Eagleton**. Do you know, off the top of your head, was there a heavy concentration of early retirements in grade levels 11 to 15, where Mrs. Horner says there is a bulge?

Ms. **Kleeman**. I am not sure what grades they were. We have done some looking at the bulge, and we aren't convinced that that is necessarily an overgrading problem there or that there are too many people in that grade group, those grade groupings.

Senator **Eagleton**. It is an overgrading problem?

Ms. **Kleeman**. We are not convinced that there is an overgrading problem in those grades. No study has been done of it that I know of, but it may very well be that with advanced technology we may need more people in the higher grades than we used before.

Senator **Eagleton**. Let me get at this. Is there a bulge? Is that a common word of art?

Ms. **Kleeman**. There is a bulge; yes.

Senator **Eagleton**. There appears to be numerically more 11's and 15's than one would anticipate; is that right?

Ms. **Kleeman**. Right.

Senator **Eagleton**. What are some possible reasons for that? Are there three or four possible reasons for that, and if so, what are they?

Ms. **Kleeman**. We haven't done a lot of work in this area, but I would say that one reason could very well be that advanced technology means that you do need more people in higher grades than you had at an earlier date in the Federal Government.

Senator **Eagleton**. Could another reason be this: I will call it salary compression. You put this freeze or whatever it is called at the top, and it just compresses the salary schedule and more people just keep advancing up into 11 and 15 but can't get beyond that.

Ms. **Kleeman**. That could be.

Mr. SHELTON. That certainly is a possibility. There are a few other reasons we cited in a report on this issue, sir.

Senator EAGLETON. You say that is possible?

Mr. SHELTON. Yes, sir.

Other reasons for a proportional increase in 11 through 15 would be the hiring freezes that have been quite consistent in previous years. We are not hiring as many people at the lower grades, so the proportion of people at higher grades would increase. Also, RIF's have been conducted. People who are separated in a RIF tend, again, to be the lower grades employees. There are several reasons why there could be a bulge in that grade grouping without concluding that there are too many of those employees.

Senator EAGLETON. I agree. Thus, in an effort to clear out, as it were, part of this bulge in 11 to 15, we have got to be rather careful that we are not clearing out the people we need the most.

Ms. KLEEMAN. Correct.

Senator EAGLETON. And leaving behind the people we need not the least, but need a little bit less than those who exit.

Ms. KLEEMAN. Right.

Senator EAGLETON. That is really microtargeting, isn't it, and microselectivity and microfocusing?

Mr. SHELTON. We are suggesting that if agencies can make the case that they do have too many people in the 11 to 15 grade group, then the bill should possibly be amended to allow those agencies to request retirement for just those employees.

If they can demonstrate they do have a problem with too many employees in those grades, that reducing them would not affect the agency's mission, possibly it might be very worthwhile to allow the agency that request to have early retirement.

Senator EAGLETON. The sample in the Forest Service, you said that occurred last year and 15 percent exercised the option. Is the sample of the Forest Service a big enough sample, in your opinion, to give us some reasonable guidance for the totality of the Federal work force?

Ms. KLEEMAN. It is really the only example we have. We have had actuaries and other people looking at this, and our estimate would be from 15 to 30 percent would exercise the option. That is a guess.

Senator EAGLETON. Governmentwide, give us the numbers that that would be—15 to 30 percent. What is the range?

Mr. SHELTON. Fifteen percent would be roughly 70,000; 30 percent about 140,000.

Senator EAGLETON. 70,000 to 140,000?

Mr. SHELTON. Yes. That would be in addition to the people who are eligible to retire normally. There is another 250,000 of those.

Senator EAGLETON. In addition to those who can normally retire, and that is 250,000?

Mr. SHELTON. Another 250,000.

Senator EAGLETON. Thank you.

Chairman ROTH. You do agree that new technologies have changed the requirements in management; is that correct?

Ms. KLEEMAN. Right.

Chairman ROTH. Do you agree that new technologies have increased productivity, as a general rule, of management?

Ms. KLEEMAN. There haven't really been any studies that I know of of this in the Federal Government.

Chairman ROTH. What about the private sector?

Ms. KLEEMAN. I would suspect this would be true, but we have no real evidence of it.

Chairman ROTH. You have not looked at it, so you really don't have any expertise in this area?

Ms. KLEEMAN. No, we don't.

Chairman ROTH. If there is a bulge in the 11 to 15 range, do you have any information as to whether these people have the expertise needed for the new management tools?

Ms. KLEEMAN. I don't know of any work that has been done in that area, either.

Chairman ROTH. The reason I raise that is the mere fact that you may need more people in those rates. I can see that may be the case, but it is also possible that you will need people with new backgrounds and technical skills.

Ms. KLEEMAN. Certainly.

Chairman ROTH. Wouldn't—by enabling people to retire early who want to do so—wouldn't you open up the opportunity for the younger or newer employees to develop the special techniques needed in this modern age of communications?

Ms. KLEEMAN. We have no problem with the concept of early retirement. I think our fear is just that if it is across the board, we have really no idea of what would happen to the Federal work force and programs. But targeted to the various groups, I think, would probably be a very good option.

Chairman ROTH. Yes. I agree that the purpose of these hearings and the subsequent drafting will be to try to be more precise. I think the more specific we can be, the better off we can be. I still say you need some waiver power somewhere in the executive branch, because we are not going to anticipate, I don't care how carefully we proceed.

But overall, would you agree that this approach, if we are able to properly refine it, is good personnel policy in the sense that it lets employees out who want to go out, and it does provide a greater opportunity for the younger and others who remain in?

Ms. KLEEMAN. Certainly, some early retirement option would be valuable if there are to be cuts. It is certainly a better option than RIF's.

Chairman ROTH. I wanted to thank you for being here today, and we would hope that as we draft the revised proposal that we could call upon you and the GAO in trying to improve upon it.

Ms. KLEEMAN. We would be very happy to work with you on this. Thank you.

Chairman ROTH. Thank you very much.

Maybe you better stay just 1 minute to make sure that Senator Eagleton is finished with his questioning.

Next we would like to call forward Mr. Fletcher Acord, who is the Associate Postmaster General. He is accompanied by Mr. Thomas Call.

Gentlemen, we are pleased to have you here today.

Mr. ACORD. Thank you.

Chairman ROTH. We would appreciate your summarizing it.

TESTIMONY OF FLETCHER ACORD, ASSOCIATE POSTMASTER GENERAL, ACCOMPANIED BY THOMAS CALL, GENERAL MANAGER, COMPENSATION SERVICES

Mr. ACORD. Thank you, Mr. Chairman. As you note, I am Fletcher Acord, the Associate Postmaster General, and I have with me at the table Mr. Thomas Call, the General Manager for our Compensation Services.

Over the last year, the Postal Service has worked very hard to hold its costs down and to improve its financial performance. We have put a great deal of emphasis on reducing expensive overtime. We have also sought to maximize the lower wage rates for new employees provided under the extended step provisions of our current collective-bargaining agreements.

Since the extended step provisions became available, we have managed through them, and through a large reduction in overtime, to reduce our average hourly wage rate by 90 cents, exclusive of general increases and of cost-of-living adjustments. These savings have contributed almost $600 million to improving our financial picture during this time.

We believe that this kind of average hourly rate saving is crucial to the continued financial progress which the Postal Service needs to achieve. When we look at proposals for changes in retirement eligibility, we want to be sure that they would not impede our efforts to continue these improvements.

The proposed bill is based on an interesting idea, that is, to use the window for voluntary early retirement as a means of reducing the Government's civilian employee payrolls and in order to help relieve the Federal deficit problem. The large reductions in payroll would also imply cutting back on the scale of Federal operations.

Unlike many Federal activities, the Postal Service does not set its own work load, the mailing public does. So cutting employment levels could be beneficial in the Postal Service only if turning away the growing demand for mail services and associated revenues could be beneficial, which it is not.

We now deliver over 53 billion more pieces than we did in 1977. Mail volume has grown at least 3 percent per year for 8 years in a row, and we expect this trend to continue.

This kind of growth is central to the strong, financially healthy postal system needed to provide the American people the service that they expect to receive. Growth in demand for mail services pays for itself through increased revenues. It does not contribute to Federal deficit problems. Moreover, it spreads the cost of the postal system over a wider base and thereby benefits everyone by prolonging the period between increases in postage rates.

By experience, the Postal Service has found that hiring ceilings within the postal system backfired. They lead to service problems which have to be corrected. Instead of saving money, they cost money because of the overtime premiums which have to be paid to get service back up to standard.

The current trends, volume trends, suggest that our work force base will have to grow substantially between now and 1990. In an average year, the Postal Service expects more than 68,000 career separations, including retirements. Retirements alone have averaged about 20,000 per year over the last 5 years. With the expected growth, this turnover provides the flexibility needed to adjust complement to meet service and efficiency needs without artificial hiring constraints.

Under the early retirement proposal, about 122,000 postal employees could be added to the 63,000 who are currently eligible for optional retirement. We can only guess as to how many of these might choose to retire. If a quarter of those eligible elected to retire, the ceiling would force the Postal Service to attempt to serve the public until 1991 under the provisions of the bill, with 46,000 fewer employees than we have now.

Providing the same service would require tremendous amounts of additional, very expensive overtime. For example, using a conservative 25 percent retirement rate, our overtime ratio would have to jump from just over 4 percent at present to more than 12 percent in 1987 and over 19 percent by 1990 to handle the growing workload.

The net financial effect would not be a savings but an initial cost of about $0.5 billion in 1987, rising to about $1.4 billion in 1990.

The bill contains a provision authorizing applications for waiver of the personnel ceilings for positions financed from user fees. This provision leads us to believe it was recognized that the ceiling proposed by the legislation would not fit the kind of situation found in the Postal Service, which has to raise its own revenues to cover its costs. But the red tape involved in a waiver procedure would inject added costs and delays, all to no benefit in the case of the Postal Service, where the user fees are the rule.

Evaluation of workload requirements and control of costs and revenues in the postal system are at the core of the management job assigned to the Postal Service under the Postal Reorganization Act. For greater responsiveness to local needs, we have recently restructured our field management organization to decentralize basic operating decisions to our new field divisions around the country. Going outside the Postal Service under a waiver procedure would undercut this important initiative, which is the kind of reform the Postal Reorganization Act was intended to promote.

Should it be considered desirable, in order to avoid confusion or inequity, that Postal Service employees receive the same early retirement rights as other employees covered by civil service retirement, the Postal Service would not object to that portion of the bill. However, we strongly oppose coverage by any employment ceiling feature of the legislation. And in that connection, we would be pleased to work with staff to amend the bill.

I would be pleased to answer any questions that you have, Senator.

Chairman ROTH. We recognize that there are special problems in connection with the Postal Service, and we appreciate your testimony here today. We will be interested in working with you on this matter.

I would just like to underscore that the user fee rule does apply to the Post Office, so that you can replace any people who elect to retire early.

Mr. ACORD. We appreciate that and feel it is necessary.

Chairman ROTH. Thank you very much, and we will be in contact or staff will be in contact to work with you.

For our next panel, I would like to call forward Mr. G. Jerry Shaw of the Senior Executives Association; Mr. Glenn Stahl, Federal Executive and Professional Association; Helene Benson, Professional Managers Association; and David Sanasack, Executive Director of the Federal Managers Association.

Ladies and gentlemen, I would ask you to summarize your statements. Is there any particular order you want to start in?

TESTIMONY OF G. JERRY SHAW, GENERAL COUNSEL, SENIOR EXECUTIVES ASSOCIATION;[1] GLENN STAHL, BOARD MEMBER, FEDERAL EXECUTIVE AND PROFESSIONAL ASSOCIATION;[2] HELENE BENSON, SECRETARY AND CHAIRMAN OF RETIREMENT COMMITTEE, PROFESSIONAL MANAGERS ASSOCIATION;[3] DAVID SANASACK, EXECUTIVE DIRECTOR, FEDERAL MANAGERS ASSOCIATION, ACCOMPANIED BY CATHERINE BALL, LEGISLATIVE COUNSEL, FMA

Mr. SHAW. I will start, Mr. Chairman, if that is all right.

Mr. Chairman, we appreciate the opportunity to be here to testify on your bill, S. 2197. We have been approached by a substantial number of our senior executives who have urged our Association to support S. 2197 so that they may leave the Government.

These people are convinced that the only time they are going to be appreciated by the administration, the Congress, and the American people is when they leave. They are convinced that no matter how important their job, how much productive work and leadership they provide the Federal work force and how important the experience they have accumulated over their Federal career, no one will notice that importance until it is no longer made.

Various sources have estimated that of the 250,000 or more who are eligible to retire, most would leave. The effect of all these people leaving and the legal restrictions on their replacement would shake the foundations of many Government agencies and seriously jeopardize their ability to carry out their missions.

We have talked with numerous high-level officials in the Government about the combined impact of the tax reform proposals which repeal the 3-year basis recovery rule and this bill which authorizes early out retirement. Every senior level official with whom we have discussed this matter says that the combined provisions seriously threaten to undermine their agency's capabilities. Some of them have told us it will take them 5 to 10 years to recover, and some have said longer.

I have attached to our testimony a series of letters from the Commander of the Headquarters Aeronautical Systems Division at Wright Patterson Air Force Base and the commander of the Headquarters Air Force Systems Command at Andrews Air Force Base written in March and April of this year. They speak eloquently of the dilemma with which these commanders are faced as a result of the tax revision and this early out bill.

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[1] See prepared statement on p. 83.
[2] See prepared statement on p. 92.
[3] See prepared statement on p. 99.

The handwritten note on page 2 of Lt. Gen. Thomas McMullen's March 29, 1986, letter speaks volumes about the seriousness of this situation. His note says: and I quote, "This is a real disaster in the making. I ran a little poll of 62 senior people eligible to retire; 48, or 77 percent, said they would. I have 104 who are eligible to retire. I cannot stand to lose 80 of them, or 77 percent, GM-14's, GM-15's, and SES's. What is more, early out" (S. 2197), could really open it up. Help!"

For your information, Mr. Chairman, Lt. Gen. Thomas McMullen commands the Aeronautical Systems Division of the largest research and development center in the world and the one responsible for the R&D on all major Air Force systems, including the administration's proposed high technology airplane that will go to Japan or China in 2 hours.

The other half of the Wright Patterson Air Force Base is the Logistics Command. They also ran a survey; the results were even more startling. All but two of their SES employees would be eligible to leave, 15 of the 17. Seventy percent of their GS-15's would be eligible to leave; 61 percent of the GS-14's; 50 percent of the GS-13's; and 60 percent of the GS-12's.

To the extent that that would reduce the bulge, it sure would, Mr. Chairman. The fact is that these are the very people who make the Air Force Logistics Division run and that do the research because they are the scientists and the engineers and the managers, et cetera.

We support, in summary, Mr. Chairman, S. 2197 because of the Tax Reform Act and the 3-year basis recovery rule being abolished. It would heavily punish Federal Employees eligible to retire, and therefore, they should be allowed to get out.

In supporting this bill, we do not for 1 minute underestimate the effect it will have on Government's ability to operate. In many agencies, it will be devastating. If the tax reform provision is changed and the Senate and House do not impose punitive tax changes now included in the tax reform proposals on Federal employees who are eligible or will be eligible to retire, we believe the best method to accomplish the purpose of S. 2197 is by giving the authority to each agency head to allow early out retirement as he or she sees fit and believes needed because of Gramm-Rudman cutbacks.

We have some technical provisions in our statement which we think should be considered in the bill. We recommend some other changes in our testimony. One senior executive who called me, Mr. Chairman, related to me he was an attorney, and he was in court waiting for his case to come up that he was handling, and he was there when a father who was a child-beater was being sentenced.

He said it was amazing how that child-beater father reminded him of the way the Federal Government treats employees today and has for the last 5 or 10 years. The judge and the district attorney talked about how terrible it was that this man had kept his children, worked them very, very hard and not fed them enough and had beat them at regular intervals. He said the father's response when it came time to sentencing was, "But Your Honor, I love these children."

It is time to let these employees who are so loved get out, because that is what they want to do. It is bad management; it is bad policy; it is bad government. It is going to have a devastating impact. We recognize that, but our people want to get out, and under your bill, they will be able to get out, and Mr. Chairman, they will leave. We hope this legislation is enacted.

Thank you.

Chairman ROTH. Let me ask a quick question. I take it that these statements do not represent the official position of those commands.

Mr. SHAW. I do not know. I was in Dayton, OH, at Wright Patterson Air Force Base this last week. I was given those letters by that command. I do not know what the official position of the Air Force is.

Chairman ROTH. That is the point I want to make. These are not official statements.

Mr. SHAW. I was not given them by the Pentagon.

Chairman ROTH. Mr. Stahl, do you want to proceed?

Mr. STAHL. Yes. Thank you, Mr. Chairman. I think enough testimony has already been given to indicate some of the hazards of legislation like this, and as you yourself have said, this is a first draft, and you would expect some modifications to be made as a result of these hearings and your further studies. I would just like to underscore a few points.

Early retirement targets your senior and most experienced people. These are the very people who ought to be given incentives to stay, not to leave. The one advantage of reductions in force is that the temporary people and short service people go first, and they are the least experienced.

So we have to bear this in mind when we are talking about the advantages of early retirement over reduction in force.

Another point I want to underscore is the one that the representative of the General Accounting Office made, that we don't really have adequate figures on work force planning. We don't really know exactly or even closely what the impact of legislation like this or approximating this would be.

Furthermore, our organization, the Federal Executive and Professional Association, feels that with the reductions that have already occurred through the Federal service, we are in a very precarious position to be extending devices for reducing more Federal personnel, more or less helter-skelter, without regard to program or without regard to occupation.

Let me say that with respect to the so-called bulge in the grade 11 to 15 area, one point that never seems to be recognized and acknowledged is that the Federal service, as an employer, is the largest employer of scientific, professional, and technical personnel in the country, probably the largest in the world. The proportion of Federal employees in the scientific, engineering, and technical area is much higher than it is in almost any part of the private sector except in some very small firms. Even universities don't have as high a proportion of professional people as we have in the Federal service.

Now, I am excluding, when I say that, the Postal Service, but over one-third of the rest of the Federal service comes under this category of professional, technical, and scientific.

This is, we think, what accounts for the tendency to bulge in grade 11 to 15, and as the representative of the General Accounting Office indicated, they don't accept that there is an unjustifiable bulge at those levels either. I point these things out because it is going to be very difficult to contrive a bill and to contrive the exceptions and the modifications that have been suggested here this morning that will not still cause a lot of headaches in a lot of agencies.

We oppose the bill as it stands, certainly, but we would urge that, in designing any modifications, you underscore especially the concept of flexibility with due control by stating the objectives in the bill, and the opportunity to target this kind of liberalization of early retirement to those occupations, as well as those functions and agencies, in which there is a managerial determination; that this is where a reduction needs to be made. It should not be assumed that in order to comply with Gramm-Rudman and all of the other budgetary pressures of the moment that we must spread this all over the Government.

One more point: We doubt very much that there is a justification for any substantial reduction in Federal employees in most agencies, and I could even think of a few where an expansion of the work force would increase Government revenues, such as in Internal Revenue Service. We have all seen the figures that have been cited by IRS and others of how many billions could be collected if we hadn't cut back on IRS agents and auditors.

That is just one sample. There are other areas like that. More of the Federal service is responsive to the needs and the demands of the public than just in the Postal Service. It is not a case of managerial determination as to what the level of service must be. I think we ought to bear this in mind when reduction of Federal expenditures is under consideration.

Thank you.

Chairman ROTH. Would you agree that a voluntary retirement plan is better than a RIF?

Mr. STAHL. Well, I raised the point in one of my earlier comments. No, voluntary retirement is not entirely better because it is necessarily targeted at the people with experience and the more senior people. If you make it too tempting for the best to leave—by that, I mean those people who have opportunities for other employment when they are still only 50 or 55—then you are encouraging the most needed and best people to leave.

The one advantage with reduction in force is that it forces you to eliminate temporaries and newer people first—those who are not as valuable to the agency; can't be as productive, and, man for man or woman for woman, are not likely to be as necessary to the continuation of the agency's functions.

So with that reservation, there may be some advantage, a certain humanity in the early retirement option, but that is about as far as I would go.

Chairman ROTH. Ms. Benson, do you want to proceed?

Ms. BENSON. Mr. Chairman and members of the committee, thank you for the opportunity to present the views of the Professional Managers Association.

The subject of retirement is of keen interest to our members who are Federal midlevel managers, primarily in grades 13 to 15.

PMA supports offering Federal employees an opportunity to retire early. We believe offering Federal employees a voluntary early retirement opportunity is a humane alternative to major RIF's. As you pointed out, Senator, enlightened private sector employers, when faced with the necessity of reducing their work force, commonly offer employees an opportunity to leave with retirement benefits normally not available to them.

PMA supports the age and service requirements specified in S. 2197. The opportunity for early retirement in S. 2197 is coupled with a penalty of 2-percent reduction in benefits for each year the employee is under age 55. On this point, we note that private sector early retirement window plans commonly offer special additional incentives beyond liberalization of the age and service requirements in order to encourage employees to retire early.

One such special incentive is elimination of the reduction in pension benefits because of age. PMA is not necessarily recommending at this time eliminating S. 2197's penalty for each year an employee is under age 55. However, we do recommend that the possibility of waiving the reduction be studied.

We also recommend that present law be amended to eliminate the reduction for those employees who are involuntarily retired. It is PMA's view that waiving the reductions for those employees is eminently fair, because their retirement income is smaller than they anticipated, solely because of action taken by the Government.

The Hewitt Associates 1986 study of the private sector open window plans shows that 36 percent of employees who are offered early retirement windows accepted. However, 64 percent of the plans in the study offered an improved pension benefit, such as elimination of the early retirement reduction. Almost all offered some additional incentive beyond liberalized age and service requirements.

PMA believes that the number of employees ultimately willing to take advantage of the early retirement opportunity offered by S. 2197 may be smaller than anticipated without additional incentives. Among the chilling effects on the Federal employee's decision to retire early are the 1983 amendments to the Social Security law which reduces the amount of Social Security benefits that can be earned by retired Federal employees eligible for benefits after 1985 and employees' anxiety concerning future cost-of-living adjustments in retirement benefits.

Furthermore, because this bill offers no incentives beyond liberalized age and service requirements, this bill, by itself, will not have the effect of encouraging those already eligible to retire to do so.

Thank you for the opportunity to testify. PMA will be happy to work with you and your staff in developing an open window plan.

Chairman ROTH. Thank you very much for your testimony. We look forward to working with you.

Let me just make one observation. Under our proposal, the benefits are reduced for employees below age 55, the same as in the involuntary retirement rules in the current law. This would avoid situations in which an employee may be reluctant to take an early retirement offer because a better one may be coming along the way.

We will be looking forward to working with you and interested groups.

Chairman ROTH. Mr. Sanasack?

Mr. SANASACK. Senator, I am David Sanasack, executive director of the Federal Managers Association. I am accompanied by Catherine Ball, our legislative counsel.

The Federal Managers Association is the oldest and largest professional association of supervisors and managers employed by the Federal Government. We thank you for the opportunity to testify before you today regarding S. 2197, which provides for an early out window for Federal employees.

Some members of FMA who would be made eligible to retire under this bill are anxious to see its passage. Those who would not be able to retire and those who would not take advantage of the early out window are disturbed by the fact that those who would leave would not be replaced for 5 years. As managers, they are concerned about the work that will have to continue despite a greatly reduced work force. They are also concerned about the tremendous loss of corporate knowledge from their activities in agencies.

We support the idea of an early out when the alternative is a reduction in force. We note that many companies, such as Eastman Kodak and DuPont, use this incentive at times when the work force must be reduced. However, it is a drastic measure, and it can change a person's attitude toward their employment.

For instance, two Sundays ago in the Washington Post, the chairman of DuPont said that the early outs showed the workers that the old days, when a person got a job at DuPont and kept it for life, were over. Perhaps we should consider the effect of a nationwide early out on our career civil service.

In addition, the DuPont experience offers us another insight. As a result of the unexpected high number of DuPont workers taking advantage of the early out opportunity, the corporation found it necessary to rehire some of the new retirees as consultants.

In any case, an early out is always preferable to a reduction in force. Voluntary retirement does provide, as you have stated, a firm yet compassionate method of quickly reducing Federal spending.

There are a couple of items in your bill about which members have expressed concern:

First, the 5-year hiring freeze. The loss of personnel as a result of the 6-month window envisioned by your bill will result in a decline in the delivery of services to this country. We can manage programs and people on a shoestring, and we have for the last few years, but our members have reported that in some agencies, there will simply not be enough people and skills left to accomplish the task.

We realize that you will try to deal with this problem by allowing the Office of Personnel Management to offer waivers in some cases, or by allowing employees to be transferred to fill vacancies. We simply do not have confidence in either approach. The management problems created by a 5-year hiring freeze will not be alleviated.

Second, section 6(g) seems to state that contracting out will not be increased unless it is cheaper for the Government to contract out. Why is this language in the bill? How does it relate to A–76 reviews? Could it be that with a work force too small to complete a task, contracting out will have to increase?

In conclusion, Senator, we support the idea of early outs when it is clear that there must be a reduction in force. It makes good sense. It is bad public policy, however, to expect those not able to leave under early out to carry on their task with no hope of hiring replacements for 5 years.

The Federal Managers Association would like to work with you and the committee to develop a bill that will allow early outs and reduce some spending. However, we want a more reasonable approach toward hiring replacements.

We would be happy to take your questions, Senator.

Chairman ROTH. I want to thank each one of you for being here today. I think your testimony is most helpful. I have only, I think, one question at this time. Won't this kind of approach provide opportunity for those that remain? One of the problems today is that many people working within the agencies bump up against the fact that the higher jobs are already filled. This will open up opportunity for those younger employees and minority groups.

Mr. Shaw.

Mr. SHAW. Mr. Chairman, I am probably one of the younger people at this table, maybe not the youngest, but probably one of the youngest. I don't understand this absolute fascination with youth and new people. [Laughter.]

Yet we talk about a grade bulge between grade 11 and 15. Every attorney in the Federal Government of the Department of Justice that comes to work there starts at grade 11. They are journeymen attorneys at grade 13 and 14 and first level supervisors at grade 15. They have been around long enough to know how to try cases against DuPont and some of these other people. Is it time to let them go to get these new people so the private sector can whip the hell out of the Federal Government?

I cannot get through my head why this great opportunity for people at grade 9's and 7's, who aren't attorneys, is going to be enhanced by our letting the grade 11 to 15 attorneys go on the early out.

Chairman ROTH. I have to say, Mr. Shaw, I understand your point, but obviously, when you are talking about a professional group, not just anyone can replace them. Nobody is suggesting that. I am——

Mr. SHAW. Mr. Chairman, I believe——

Chairman ROTH. I will finish my statement, Mr. Shaw.

Mr. SHAW. Excuse me.

Chairman ROTH. I am sympathetic to the idea that we have to target, and there are areas where exceptions will have to be made, but I think as a general rule of good personnel policy, you generally want to have opportunity for the younger employees. You raise a valid point, and it is something that has to be considered.

Ms. Benson.

Ms. **Benson**. We support an opportunity for younger people to be promoted.

Chairman **Roth**. Mr. Sanasack.

Mr. **Sanasack**. Mr. Chairman, yes, there would be opportunities, but there would also be a great deal of frustration with the workload left with the hiring freeze. I think both; the opportunity has to be looked at, the limitations would also go along with the people.

Chairman **Roth**. Every proposal has side effects, and some of them have to be corrected.

Mr. Stahl.

Mr. **Stahl**. Mr. Chairman, as a result of this discussion, especially the most recent discussion, I would make this suggestion. I have forgotten now who made it earlier this morning, but probably one of the most important suggestions that has been made for modification of the bill is simply a relaxation of the present requirements for the use of early out. At the present, the early-out provision is something that an individual agency can ask for and get OPM approval of whenever there is a substantial reduction in force. You could provide some relaxation of that, that would authorize the agencies and OPM to use early out in a few other instances beyond a massive reduction in force. This might be the kind of amendment that would avoid the pitfalls that have been cited by one person after another this morning.

Chairman **Roth**. Ladies and gentlemen, I appreciate your being here. We will want to call upon each one of you as we proceed with the rewriting of the legislation.

Thank you very much for being here.

Mr. Blaylock, is he here? Mr. Braunstein and Mr. Tobias, Mr. Gusky, James Peirce. Gentlemen, I am very pleased to have each and every one of you here.

I think you heard the rules that your full statement will be included but I would ask you to summarize it within 5 minutes.

Does anyone want to start?

TESTIMONY OF KENNETH BLAYLOCK, PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES;[1] DAVID GUSKY, EXECUTIVE DIRECTOR, NATIONAL FEDERATION OF FEDERAL EMPLOYEES;[2] ROBERT M. TOBIAS, PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION;[3] JAMES PEIRCE, ASSISTANT TO THE PRESIDENT FOR LEGISLATIVE AND POLITICAL AFFAIRS, NATIONAL ASSOCIATION OF LETTER CARRIERS;[4] AND ROY BRAUNSTEIN, GENERAL COUNSEL, AMERICAN POSTAL WORKERS UNION[5]

Mr. **Blaylock**. Mr. Chairman, I am Kenneth Blaylock. I will be glad to start the panel off this morning on behalf of the 700,000 workers we represent.

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[1] See prepared statement on p. 101.
[2] See prepared statement on p. 108.
[3] See prepared statement on p. 115.
[4] See prepared statement on p. 126.
[5] See prepared statement on p. 141.

On behalf of the members and workers that we represent, we do appreciate the opportunity to appear here to give our views on S. 2197, which was introduced by Chairman Roth and would provide for a 6-month window from July 1, 1986, to December 31, 1986, during which Federal employees would be eligible for early out retirement.

Any employee aged 55 or older meeting the standards and operating for such early out retirement would receive his or her full age benefit, while employees under age 55 would have the benefit reduced by 2 percent for each year.

Under the current language, it appears that in 6(c), hazardous duty retirement would also be reduced, and it is our feeling at this time that that probably was unintended and needs to be corrected.

The key to the bill is a restriction placed on the agency barring them from replacing these employees for a 5-year period. Executive agencies would be legally forbidden to hire employees unless such hiring would not exceed the number of employees employed as of July 1, 1986, minus the number of employees who were retired during the window period.

The reduced employment levels would include both normal retirees and those taking advantage of the early out window. In addition, reduced employment levels would eliminate unfilled vacancies. In effect, this is a nonplanned, unmanaged legislatively reduced manpower ceiling which no company in the private sector would think about using.

At the minimum, we would suggest that the reduced employment levels should only reflect the early out retirements and include existing vacancies.

Because the window falls just prior to the proposed elimination of the "rule of three" in the tax reform bill now being considered by the Senate, the percentage of eligible employees who take advantage of the bill's provisions can safely be predicted to be very high.

This bill can be seen as predicated on two basic premises: One is that early out retirement is preferable to RIF's in reducing Federal employment and the Federal payroll;

And two, that Federal employment can be reduced by 250,000 to 350,000 without severely disrupting the function of Government programs and provision of Government services.

We fully concur with the first premise, but we are very troubled by the second. We are pleased to see that the Chair recognizes the counterproductive nature of RIF's. As has been often shown by GAO reports and other personnel experts, RIF's are extremely costly.

In addition, the disproportionate burden borne by women and minorities has been amply documented by the Government Service Task Force. If it is anticipated that because of Gramm-Rudman-Hollings and the resultant fiscal year 1987 budget, the major program eliminations, scalebacks and/or reductions are inevitable, and if there would be accompanying reductions in personnel, clearly S. 2197 would be the preferred procedure for affecting those personnel reductions.

However, if the premise is that Federal Government can reduce personnel by 10 to 15 percent without reducing the role of Government commensurately, the bill is flawed. Over the past decade, salary and expense accounts and administrative budgets have been drastically squeezed throughout the Federal Government. As I travel throughout this country speaking to locals, I keep hearing a repeating theme: "We used to do this job thoroughly and correctly. Now with reduced personnel or additional workload, we just make do."

Mr. Chairman, I would like to add at that point we are having serious concerns right now in our ability to carry out the mission of many agencies, and I would point to and raise the question about all of the recent accidents: The tanker, the *Delta*, and of course our *Challenger* accident and the reduced number of quality control people there and in the agricultural sector throughout the country, that they are seeing more and more disease and contaminated beef in the marketplace itself.

Again, we are down to where we have approximately 5,000 people trying to carry on that full inspection process. I raise the question of the procurement problems we are having. Do we have enough auditors today to make sure we don't get the $600 toilet seats and so on, all the horror stories that we hear? We know for a fact that our work force is squeezed out there. The administration's fiscal year 1987 budget process proposes eliminating scores of Government programs, privatizing others, and turning other programs over to State and local government.

Even with those drastic proposals, they estimate they could only reduce civilian agency employment net of DOD and the Postal Service by about 23,452. Any proposal to cut personnel by 10 times that amount must assume program reductions much more severe than that envisioned by the President's budget.

You simply cannot expect to do away with the work force and believe the programs can remain standing.

Connected with this concern is that the dramatically reduced personnel ceiling will force agencies to substitute contracted-out work for Federal workers.

In conclusion, we in the American Federation of Government Employees, support the legislation as an alternative to RIF's. But we place several caveats on that support. One, we think that the bill must contain language to clearly and absolutely halt the growth of contracting out. You don't really get those savings if you don't reduce the work, you reduce the personnel to do the work and turn around and contract it out, and as you well know, we now spend $53 billion a year on service contracting.

A lot of that started with the OMB manpower shakeups years ago. We can eliminate work, but people work. There should be a decrease equivalent to the Government program workloads if the legislation is to not render major programs dysfunctional.

Whatever we have left, we ought to be able to do it well. If you just keep the skeletons of the agencies and the skeletons of the work force, we are going to continue to see a deterioration of government work, and I don't believe that is the intent of the Congress.

If this provision is to be offered to all Federal employees, we would also recommend very strongly, Mr. Chairman, that the exception for nurses and physicians should be eliminated. They should be entitled to this alternative, also. With that, I will conclude my summary and express our appreciation for an opportunity to give our position.

Chairman ROTH. Thank you, Mr. Blaylock.

Mr. Gusky.

Mr. GUSKY. Thank you, Mr. Chairman. I will briefly summarize our statement.

S. 2197, of course, puts our organization and many of the organizations here today in a difficult position. On the one hand, our rank and file membership and Federal employees in general seem to support the intent of S. 2197 as far as the early retirement provisions are concerned. Of course NFFE, for many years, has supported early retirement and, therefore, we support those provisions in this piece of legislation.

However, we are deeply concerned as to what happens to the employees who are left behind once this bill goes into effect. How will they accomplish the mission of the agency? There are a number of activities around the country which would lose substantial numbers of employees. How are those installations supposed to carry out their mission?

We don't believe it is going to be possible, at least not with substantial reorganization or perhaps contracting out, which we think will make matters even worse.

So to summarize as briefly as possible, we support the intent of S. 2197, particularly with regard to the early out provisions. However, we feel some changes have to be made to the hiring restrictions before this bill is passed into law.

Chairman ROTH. Thank you.

Mr. Tobias.

Mr. TOBIAS. Thank you, Mr. Chairman. We appreciate, also, the opportunity to appear and testify with respect to this legislation that you have introduced. We think the early retirement option is an important benefit for Federal employees who meet the eligibility requirements and can afford a decreased annuity.

NTEU has encouraged this method as humane and a viable alternative to the RIF's. It is a very popular approach in the private sector, and we think that it is something that can be adapted and adopted in the Federal sector.

The proposed benefit has been very warmly received by our membership. Our existing employees see it as an opportunity for increased promotions, and those who feel threatened by a loss of jobs see it as a way of easing the impact of staff reductions.

But we also see some problems with the bill. First, we see that the 2-percent reduction for retirees under age 55 who would qualify under this bill actually discriminates against those who are middle and lower grade people.

Those people would have to take a reduction and could ill afford the reduced annuity, while those who are in higher grades could. We think that this distinction should be eliminated.

Second, we think that the thrust of the bill which provides a onetime exception ought to be reconsidered. It seems to me that this kind of an option ought to be available for consideration by agencies at any time when they are thinking about RIF's. They ought to be able to evaluate the costs of a RIF, both short and long term, and be able to offer this as an option rather than just a 6-month window period.

Third, NTEU adamantly opposes the 5-year limitation on hiring staff. I think that if an agency head suffers a reduction in its staff on an issue which is totally outside of his or her control, that is, the age of the work force, that it is really unfair to that agency head then to be asked to manage the mission of the agency. I think it takes away the ability of the agency head to manage.

And, more importantly, it takes away the responsibility of the Congress by that agency head to manage its operations. For example, the agency head could say, "Well, I can't carry out my mission, Senator Roth, because I don't have the people." He or she would be in a very good posture to be able to say that.

I also think that just in a commonsense way, that there are some agencies who need additional employees and some who need less. That decision ought to be made on a case-by-case basis, not on the basis of how old the work force happens to be between July and January, 1986. I think that there is a general recognition, for example, that we need more staff in some agencies, for example, in the Customs and the Internal Revenue Service. This bill would limit that and not allow hiring behind those who retired.

I think that tough decisions ought to be made and not what I would characterize more of an arbitrary impact on an agency operation based solely on the agency work force. I also think that giving OPM the authority to waive the requirement is no answer whatsoever. I think at OPM there would be a problem with delay; there would also be a problem of creating a new layer of bureaucracy that isn't there now. In addition to a department level review; in addition to an OPM review, in addition to a White House review of staffing needs, we now have OPM in the picture. I don't think they are particularly able to conduct this kind of an examination. I think it is unwise that they be given this authority.

So we urge the removal of the 5-year freeze on hiring behind, and we urge that OPM not be involved in granting a waiver. Other than these limitations, Senator Roth, we think that the approach does, in fact, answer a need that has been around for some time.

Thank you very much.

Chairman Roth. Thank you.

Mr. Peirce.

Mr. Peirce. Thank you, Mr. Chairman.

Mr. Gould, the head of the National Association of Letter Carriers, could not be here this morning. He asked if he could include in the record a factsheet prepared by the association on your legislation with your permission.[1]

Chairman Roth. Without objection.

Mr. Peirce. Thank you. I will summarize his statement. We support the concept of a workable, early retirement plan and appreciate your efforts in that direction. The NALC would like to work with you to develop a mutually beneficial system for letter carriers, the U.S. Postal Service, and the American people.

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[1] See p. 133.

The total number of letter carriers eligible to retire under your bill and current civil service retirement would be 45,125, which is 20 percent of our craft. If all those people retire, the results to the Postal Service, which is the heart of America's communication network, would be disastrous.

That leads us to the million-dollar question: How many people actually would retire?

Many letter carriers who are close to retirement are worried about their future because of the attempts to repeal the 3-year recovery rule upon which they based their life savings. They are aware of attempts to raise the retirement age, change the COLA and annuity formulas, and reduce survivor benefits. Budget Director James Miller heightened tensions with his comments about selling off the Postal Service.

Mr. Chairman, retirement is on our people's minds. A 1984 survey of 363 large corporations showed that 62.1 percent offered early retirement incentives in their normal pension plans. In two-thirds of the open window programs, 50 percent of those eligible took advantage of that program.

We have an insight into the effect of mass retirements on the Postal Service. In the midseventies, the USPS had an early-out retirement program coupled with a hiring freeze.

When mail volume increased, service suffered, efficiency went down, and overtime costs went up dramatically. They had to institute an emergency retirement program.

Today, the Postal Service is in a similar position. We are experiencing increased volume, growth of an average of 8 percent per year, at the end of fiscal 1983. In fiscal 1985, over 1,050,000 delivery points were added.

Since September 1985, 1,400 additional letter carriers were hired per month. Consequently, the Postal Service is hiring now.

Without relief from the hiring freeze, contracting out would be the direct result of massive immediate retirements. Congress has consistently and adamantly opposed privatization of the Postal Service as costly, ineffective, and inadequate. OMB Director James Miller witnessed your committee's strong support for the private express statutes at his confirmation hearing.

If there is a lowering of standards, it would certainly result from contracting out; innovative new programs such as the Express Mail and International Priority Mail would be imperiled. Free services such as draft regulation, distribution of income tax fund, low-cost mail to Armed Forces overseas, and food stamp distribution would suffer.

I would like to point out something else from private sector studies. They offer bonuses for people retiring during the early-out window. Fifty-four percent of the programs surveyed offered eligible employees bonus payments. Thirty-two percent offered both bonus payments and additional pension benefits. Letter carriers who have reached age 55 but do not have the minimum years of service would welcome an equitable early retirement option.

We have worked out some examples which I would like to submit for the record and for the committee's consideration. Under S. 2197, a letter carrier retiring at age 50 with 20 years of service would receive an annuity of $7,032 per year before paying taxes, health plan, or providing for a survivor annuity.

During an average lifespan, that carrier would lose $56,462 in reduced annuity benefits. Additionally, this early-out penalty would have a greater impact on surviving spouses, whose annuity would be below the poverty level.

Mr. Chairman, the annuity is entirely too low and the loss entirely too much. In order to provide letter carriers with the facts before they make such a crucial decision, we hope that the legislation would provide retirement counseling for eligible individuals and we would have some idea as to the impact on the Postal Service. This concludes my statement, and I would be glad to answer any questions. Thank you.

Chairman ROTH. Thank you, and we will ask the questions of the entire panel later.

Mr. Braunstein.

Mr. BRAUNSTEIN. Good morning, Mr. Chairman.

My name is Roy Braunstein. I am legislative aide to the American Postal Workers Union. President Moe Biller was unable to be here today because of conflicting schedules. We are pleased to be here to present our union's views on S. 2197.

We believe that S. 2197, although well intentioned, will obviate the intentions of early retirement for the Government and U.S. Postal Service.

As introduced, S. 2197, would establish a 6-month period during which those postal and Federal workers who meet standards established by the legislation would become immediately eligible for retirement. The normal age and length of service requirements established for civil service retirement eligibility would be temporarily bypassed. By their very nature, abrupt and temporary changes in these requirements produce inequities, especially for those employees who just barely missed the temporary eligibility criteria.

S. 2197 provides that, if an employee meeting one of the retirement eligibility standards elects to retire within the 6-month window period, he or she will receive full retirement benefits if the worker is age 55 or above.

However, if the employee elects to retire before age 55, the annuity will be reduced by 2 percent for each year under age 55. Thus, a worker retiring at age 52 with 30 years of service compared to another worker retiring at age 57 with 30 years of service will receive nearly $10,000 less in benefits during the first 10 years of retirement.

Similarly, a worker retiring at age 50 with 20 years of service compared to another worker retiring at age 60 with 20 years of service will receive over $10,500 less in benefits over the first 10 years of retirement. We have made some comparison tables of typical retirees under S. 2197 which we would like to submit with the testimony for the record.

APWU opposes any penalties for pre-55 retirement. The legislation would permit a worker who entered the Postal Service at age 20 to elect retirement with 25 years of service. It would be a very tempting offer for most people. However, under the legislation's provisions, that postal worker's annuity would be reduced by 20 percent. Although the worker may recognize the necessity to attain employment outside of the Government upon retirement from the Postal Service, their transition to private employment may not be as easy as the worker anticipated.

The combination of a reduced retirement benefit and inadequate local job market may cause a difficult and unanticipated hardship. If the early retirement legislation is passed and contains the pre-55 penalty, APWU believes it is the responsibility of the Office of Personnel Management to inform and educate Federal and postal employees of the potential for significantly reduced income.

A table presented with this testimony demonstrates that a postal worker retiring under the early-out provision at age 50 with 20 years of service would need to earn over $250,000 in private employment to make up for lost wages and retirement income he or she would have received if postal employment had been continued until age 60.

We understand that many employees would favor this bill if they fit in categories cited in the bill, but the APWU must represent all of its members, and this bill leaves huge, unanswered questions, both for those members who would contemplate retirement under S. 2197 and those who remain in the work force under the provisions of the bill and cannot retire.

S. 2197 legislates a hiring freeze for an incomprehensible 5-year period by prohibiting each Federal and executive agency from hiring new employees to fill the vacancies created by the authorized early retirement.

The bill allows the Office of Personnel Management to waive the hiring restrictions for a position or class of positions and further allows the Government to contract out to accommodate agencies' increased workloads if financially beneficial to the agency.

Mr. Chairman, these provisions establishing an employment ceiling for the Postal Service will be a huge intrusion by Congress into the operations and independence of the Postal Service as established under the Postal Reorganization Act. Furthermore, these ceilings would cause a severe imbalance and distortion in the collective-bargaining process. The waiver process also appears to place the OPM in a position of authority over the Postal Board of Governors regarding the purely operational decision of how many employees the Postal Service has to do the job.

I am appalled that the Congress is even considering such an involvement in the detailed management of the Postal Service, although I am glad that you have stated this morning that you are going to consider revising and reconsidering in that area.

Clearly, the postal management must retain the independence granted under the Postal Reorganization Act and through an even-handed collective-bargaining process to determine the number of personnel necessary to handle the huge mail volume.

Giving authority to the OPM would be tantamount to turning the USPS operationally back into a Federal department. The USPS would not have the authority to run its operations in a businesslike manner and could make no service guarantees.

Arbitrary cuts in personnel would force the Postal Service to cut the least profitable services, and we know that that means service to hard-to-reach rural areas and low-income inner city neighborhoods.

The postal workers are extremely sensitive to working conditions such as mandatory overtime which, under the 1984 arbitration decision, was widely utilized by postal management. There is a 60-hour limit on overtime as per the 1984 arbitration decision. Postal workers also are concerned about the ramifications of possible "excessing," transferring their employment from locale to locale to replace former postal workers who would retire under S. 2197.

S. 2197 offers no protection in these areas, nor does it offer protection in terms of reversion or abolishment of senior positions.

Mr. Chairman, given these uncertainties in the bill that is pending before the Congress currently, we recommend substantial amendment of S. 2197 to accommodate our union's concerns. The APWU cannot support the legislation at this time unless it is amended to:

One, eliminate the 2-percent penalty for retiring before age 55;

Two, eliminate the 5-year freeze;

Three, prohibit contracting out positions in the U.S. Postal Service.

We thank the committee for the opportunity to appear.

Chairman ROTH. Thank you.

Senator Stevens wanted to be here. Unfortunately, he had to attend the markup in Appropriations. But he did want me to express his regrets that he was unable to attend and will submit a statement for the record. [1] Without objection, it will be placed in an appropriate place.

Chairman ROTH. Senator Eagleton?

Senator EAGLETON. Gentlemen, let's just go down the line. Passing for the moment the specific details of the Roth bill, I will ask this general question of each of you, starting with Mr. Gusky. Do you favor the concept of legislation permitting early retirement?

Mr. GUSKY. Yes.

Mr. BLAYLOCK. Yes.

Mr. TOBIAS. Yes.

Mr. PEIRCE. Yes.

Mr. BRAUNSTEIN. Yes.

Mr. TOBIAS. See no evil, hear no evil, speak no evil.

Mr. GUSKY. Just say "ditto."

Senator EAGLETON. Do all of you agree that if there is such a concept, it ought in some way to be a permanent window vis-a-vis a one-time only window which was raised by Mr. Tobias, and maybe others?

Mr. GUSKY. The authorization for early retirement should be permanent. Is that what you were asking, sir?

Senator EAGLETON. Yes.

Mr. GUSKY. Yes.

Mr. BLAYLOCK. If I understand your question, you are relating that to RIF's and reductions. There would be some trigger mechanism, but the basic concept that we have a permanent early retirement authorization, for some reason, not just that we are saying we are changing the retirement age——

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[1] See p. 73.

Senator Eagleton. No, not changing the retirement age, but we are making it, in a sense, a permanent authorization to be used as an alternative.

Mr. Blaylock. If an agency, for any reason, is facing reductions, they would have the authorization to use the early retirement as a first alternative, yes.

Senator Eagleton. Yes.

Mr. Tobias. Yes.

Mr. Peirce. Yes.

Senator Eagleton. Mr. Braunstein?

Mr. Braunstein. Yes, given the limitations which we discussed today, which would be the hiring freeze, the penalty, and contracting out.

Senator Eagleton. OK. Of those evils that you all have detailed, you find this the most palatable way to do something as opposed to the other evils as mentioned, contracting out, RIF's or a freeze?

Mr. Gusky. Right, provided, of course, that we don't have those hiring restrictions that go along with them.

Mr. Blaylock. I think if you just put the alternative as early out retirement authorization or a RIF, private sectors have used that for a long time, as you well know. Economically, it is a hell of a lot cheaper to let people retire than to RIF, with severance pay and all the other costs. We found that out a long time ago.

From that point of view, yes. The problem is, you can't target the particular needs of particular jobs in the agencies. Who is going to retire early? That is going to be determined by the agency and the employee. There has to be some adjustment there to make sure certain agencies are staffed adequately to carry on. It definitely is one of the options that is favored over just a reduction in force.

Mr. Tobias. Yes, we do support that, Senator Eagleton, and it has been available for quite awhile, but only with OPM review. So if there were going to be a really viable alternative, the legislation would have to address the restrictive interpretation and the restrictive ability OPM has given the agencies to carry out early retirement in the face of RIF's. But generally, we support it.

Mr. Peirce. Yes, we support it, and as I indicated in our testimony, the chairman stated he was following the pattern that has been developed in private industry, and we share that desire. We would like the positive that goes with some of the private industry policies to be applied to Federal employees. It seems that often, what happens is they apply the negative, what they can find that is detrimental that is done in private industry. They want to apply that to us. This is an opportunity for a positive application.

At least 363 large corporations were surveyed. Along with the early retirement window, they had such features as a bonus and no penalty, in fact, even increasing pension opportunities. So their attitude was, yes, this is an opportunity to revitalize an institution and improve productivity, because it is good for the company, and since it is good for the company, we are going to encourage people to retire, and we are going to reward them by retirement benefits. Coupled with that concept, we could support it.

Mr. Braunstein. Yes, we can support it, as well, but it should be noted that in the Postal Service, as was stated earlier today, volume has been increasing, employees have been increasing, and it would be very difficult at that point to have a RIF when volume continues to escalate.

Senator EAGLETON. Finally, of targeting. Mr. Blaylock said that he opposed the question of exempting physicians and nurses from the option of early retirement.

Suppose the Government finds, Mr. Blaylock, that there are certain specialty areas in which the Government is already in dire need of people? Let's suppose one of them is physicians, and let's suppose another one is air traffic controllers, and after a thorough study, there are many categories of employees where the Government is short, and in some instances, it is even desperate to get some people to fill those slots.

Should the Government offer early retirement to those categories of employees under those circumstances?

Mr. BLAYLOCK. Well, Senator, when the hearings were held yesterday on the special pay bill for special rates of pay for a shortage of positions where Government was having trouble recruiting and retaining. I think that is one of the problems that you have to deal with and the reason those exclusions are there. You know that and I know that.

The problem is you have a shortage there because we are not meeting comparability with what those people can make in the private sector.

I think it goes to the point that every witness here today has made. That you can't just, in a helter-skelter way or an across-the-board way, reduce Government without reducing programs or reduce personnel without reducing programs.

But I think in all fairness, if it has been determined that the agency has got to reduce numbers of people, then those workers should all be entitled to that. I think you ought to deal with your shortages through your compensation problems, not using this program.

Mr. TOBIAS. Senator, I think that issue goes away if the approach is taken that early retirement is only available in the context of a RIF, and if the jobs are needed, obviously they wouldn't be covered by a RIF action and wouldn't be eligible for the early retirement.

The issue only comes up in this context where you have a one-time shot over a short window period and it is indiscriminant across the Government. Then you have the issue of targeting.

Senator EAGLETON. I still want to face the issue. I mean, it is a one-time shot, and it is a short window, and, "Come one, come all, take early retirement."

I just couldn't bring myself, even though I like the word equity, even though I like the word fairness, and even though I like the phrase across-the-board equal treatment and all of those lovely phrases, in logic, I couldn't bring myself to offer this one-shot availability in areas where the Government was already having difficulty getting employees in the first instance.

Mr. TOBIAS. You see, that makes sense that you would be troubled by that concept, and it is really at the heart of the problem with this bill, because it is indiscriminant. It doesn't make the kinds of distinctions that you think need would be made and would be made in common sense, and the same thing would apply from an agency head's point of view who was looking at a work force, 30 percent of which was aged 50, and they walk out the door and there is no way to fill behind.

So it is those kinds of problems which make this bill, as drafted, a real problem.

Senator **EAGLETON**. Thank you. But Ms. Kleeman testified that the bill had to be, in her words, focused, targeted, directed, et cetera.

You, Mr. Tobias, seem to agree with focusing, targeting, and directing as being sensible, but Mr. Blaylock seems to be against it because it ought to be "come one, come all."

Where am I with you folks?

Mr. **BLAYLOCK**. That wasn't what I said, Senator. What I said is, if you are not going to target, and the example in this case you are using of the physicians and the nurses, if you are going to run a reduction in force in VA, and that is mainly where you are talking, I think that is one of the flaws of the bill as Bob just said.

If you are going to make it an across-the-board, one-time shot for everything, then we think they ought to be included, but we don't think that is the way you ought to do it. We think there should be some kind of a trigger mechanism and determine: Is there going to be a RIF in VA next year? Are you going to cut VA?

If that is decided, then those nurses and doctors ought to be entitled to it. But where you have the shortage areas is where the program should be maintained. It should be structured in such a way to say: We are not going to cut in that area; these cuts are coming somewhere else, and so you begin to target, and I think that is what Bob is saying.

Senator **EAGLETON**. Mr. Chairman, Senator Gore has several questions, six in number, that he would like to direct to the postal workers and has asked that they be asked for the record.[1]

Chairman **ROTH**. Without objection.

Senator **EAGLETON**. Thank you, Mr. Chairman.

Chairman **ROTH**. Senator Durenberger.

Senator **DURENBERGER**. Mr. Chairman, I regret not having been here for more of this hearing, but I have spent the morning at a markup and conducting a hearing in Environment and Public Works.

I am trying to pin down exactly how to respond to S. 2197. I have before me testimony that describes S. 2197 as the "escape hatch" from what the Senate Finance Committee did. To quote Jerry Shaw, general counsel of the Senior Executives Association, "Since the Senate Finance Committee has seen fit to impose this multibillion dollar tax burden on public employees—"meaning the repeal of the 3-year recovery rule,"—who contribute with tax-paid dollars to their own retirement system, we support S. 2197 in order that those affected may leave Government."

Is that a fair summary of S. 2197? Is that the way to look at it? Should I be thinking about it, as just an escape hatch?

Mr. **TOBIAS**. It can be looked at as an escape hatch certainly, but our position is that, as drafted, it is not sound public policy, because it is an indiscriminant cut in Federal employment, and it limits the filling of the positions once these people are gone.

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[1] See p. 154.

Yes, it would be advantageous in the sense that those who could retire would be able to get their 3-year recovery before the law changes, and our view would be that that would spur people to leave Government and exacerbate the problems of administration for those who stay.

Senator **Durenberger**. Let me phrase it this way: What would be good about S. 2197 if the Senate Finance Committee had not taken the action that it has taken?

Mr. **Tobias**. It recognizes the need that in the face of RIF's, that people can, in fact, retire early. That, alone, that concept, makes good sense.

If you are having a RIF, it ought to be a viable alternative to an agency to evaluate and use, if it makes good sense. It is not really available now; it is theoretically available, but OPM doesn't grant the requests that agencies make, so it is really not available. If there were legislation that would make it available in the context of a RIF, I think it would be good public policy.

Senator **Durenberger**. So if I worry about my Government—losing 20 percent of its best employees—and I am worried about that—and I am also worried about the people that are at the edge of the cliff and that can't retire but must stay behind — I should be over at the Finance Committee working on the tax bill, not working for or against this bill. Is that the way to think about S. 2197?

Mr. **Tobias**. You should be working the tax bill. That is one thing you ought to be working. [Laughter.]

We urge you to do that.

Senator **Durenberger**. Well, I did, but we lost.

Mr. **Tobias**. We have got another shot at it, though, right?

Senator **Durenberger**. Right.

Mr. **Tobias**. This bill, the focus of this bill change is to early retirement in the context of a RIF as opposed to across the board. The whole focus changes, the whole focus and thrust of this bill changes, and in our view, for the best.

Senator **Durenberger**. Mr. Braunstein, I want to follow upon what you said about the rural postal service and rural service delivery in general. How did you come to the conclusion that that rural services are going to get hurt first or perhaps worst?

Mr. **Braunstein**. If contracting out is going to take place within the Postal Service, we suspect that the first place that would be affected would be in the urban areas. You are going to have firms come in through privatization. In the rural areas, thus, with reduced volume, there would be a need for general subsidy by the Postal Service or by the Congress to make up for that reduced volume and continue to pay the workers and to make sure the service is performed.

If that does not happen, you would see a massive deterioration in service in those rural areas and also in the low-income areas within urban areas, as well.

Senator **Durenberger**. What is the Postal Service most likely to do? Are they going to switch some of their rural service to alternatives like hiring out carriers or something like that? What do they do?

Mr. **Braunstein**. It would be hard for us to say precisely what the Postal Service would do. It would be up to the Postal Board of Governors, who would be making that determination, not the union.

Mr. **Peirce**. Senator, if I may say, in the midseventies, we had a similar situation where the then Postmaster General Bailar established an early out procedure, and a number of Postal Service employees retired. What happened was service generally deteriorated, both in the rural areas and in the cities, on a national basis.

To the point that he had to work in a rushed retirement program, what happened was routes for letter carriers were extended. Letter carriers were delivering mail until 6 and 7 o'clock at night. Clerks were working almost around the clock, and at the same time, the overtime costs were mounting. Service generally fell precipitously. So we had the experience without an ability to retire.

Senator **Durenberger**. So service went down and costs went up?

Mr. **Peirce**. Yes, sir, at the same time, and the Postmaster General had the authority to rehire, but on a policy basis he decided not to, and then he had to go to a emergency rehiring program about a year into his policy that he established.

Senator **Durenberger**. I also read Rosslyn Kleeman's testimony which left me with that impression that, across Government, service are going down and costs are going up. It seems we haven't factored in the costs of training and new people and that sort of thing.

Is that a general consensus across the board? For some period of time, at least, services go down and costs go up?

Mr. **Blaylock**. Senator, I think a point all of us made one way or another in our testimony in our experience is that if the programs in Government are going to be maintained and you don't keep sufficient staffs to carry it out, the program deteriorates, and that is what has happened.

I think to answer your earlier question about the escape hatch, as soon as the the bill was publicized, and I have been from one coast to the other, and I heard the impact in your State last week, and I found not one employee in any group I have talked to who did not support the idea. Both the people who are eligible and Federal workers are tired of getting dumped on. They no longer feel that people care. They say, "If I get $10 I am going."

The ones left are concerned how they are going to do it, but they see a promotion opportunity, so I think it is an escape hatch, and I see people participating.

But the point Senator Eagleton was making about certain jobs that are needed to be done, that we have shortage of skills in, that applies to anyone. If you have got jobs out here in the Government that don't need to be done, we shouldn't have them in the first place.

Senator **Durenberger**. All three of us here are on the Intelligence Committee, and we are already shortshifted. We are trying to attract more people with talent. This bill would cut the top off the skill levels. There are a lot of people waiting to come in at the lower grades, we all know that, but the skills required don't pop up overnight.

Mr. Blaylock. As an alternative to RIF, we are going to face budget cuts, whether it is Gramm-Rudman-Hollings or whether it is just trying to meet targets and get the deficit down. That is the only approach to it. Then we all support the early out as an alternative. One, it is a little more humane and gives people an option, and it is not as costly to the Government.

But it is going to be devastating, no matter how you reduce it, because there is not going to be enough people to carry out most of the work, and that is true.

Mr. Gusky. I was just going to say, Senator Durenberger, that this bill is predicated on the fact, I believe, that the Federal bureaucracy simply has too many employees. Well, Capitol Hill often has that charge leveled at it also. There are several thousand employees on Capitol Hill. I think those people who work on the Hill or have worked on the Hill realize that sure, there are committees and there are personal staffs where there may be one or two many employees.

On the other hand, there may be committee or there may be staffs where there are not enough employees. To take an approach like this, where it just indiscriminantly allows employees to leave, as you know, some committees or some staffs may get hurt, and the same thing would happen in the Government.

Senator Durenberger. Yes, just look at these staffers sitting around here looking smarter than the Senators. [Laughter.]

Thank you very much.

Chairman Roth. Thank you, gentlemen. I appreciate your being here today. We will be calling on you as we develop the legislation.

I would just point out to Senator Durenberger another course. Much of the discussion has focused on the the need to target. There are areas where you need more people. It is also a fact that current techniques, certain technologies have changed the productivity in many areas, so that with Gramm-Rudman, which has been adopted by Congress, we see an opportunity to provide the opportunity to employees that want out on a voluntary basis and at the same time to provide opportunity for those who remain, opportunity of promotion.

I think this is particularly important with respect to women and minorities. So that I think in general, we have a proposal here that serves all interests. I do agree that the specific legislation is a first draft and it can be improved upon, and we look forward to working with all the groups that were here today.

Thank you very much.

Mr. Tobias. Thank you.

Mr. Blaylock. Thank you, Mr. Chairman.

Mr. Gusky. Thank you.

[Whereupon, at 12:07 p.m., the committee was recessed, subject to the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

99TH CONGRESS
2D SESSION

S. 2197

To amend title 5, United States Code, to establish an optional early retirement program for Federal Government employees, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 14 (legislative day, MARCH 10), 1986

Mr. ROTH (for himself and Mr. STEVENS) introduced the following bill; which was read twice and referred to the Committee on Governmental Affairs

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A BILL

To amend title 5, United States Code, to establish an optional early retirement program for Federal Government employees, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Federal Employees' Optional Early Retirement Act of 1986".

PURPOSES

SEC. 2. The purposes of this Act are—

(1) to reduce Federal Government civilian payrolls in an orderly and voluntary manner;

(2) to accommodate the personal plans of certain Federal Government employees who desire to retire

but have not satisfied the applicable age and service requirements;

(3) to allow current Federal Government employees to retire early in order to avoid possible adverse effects of Federal budgetary conditions; and

(4) to provide increased job protection and career opportunities for Federal Government employees, especially women, members of minority groups, and young workers.

TEMPORARY VOLUNTARY EARLY RETIREMENT AUTHORITY

SEC. 3. Section 8336 of title 5, United States Code, is amended—

(1) by redesignating subsection (m) as subsection (n); and

(2) by inserting after subsection (l) the following new subsection (m):

"(m)(1) Except as provided in paragraph (2) of this subsection, an employee who—

"(A) during the period beginning July 1, 1986, and ending January 1, 1987, is separated from the service, except by removal for cause on charges of misconduct or delinquency—

"(i) after completing 25 years of service;

"(ii) after becoming 50 years of age and completing 20 years of service;

"(iii) after becoming 55 years of age and completing 15 years of service; or

"(iv) after becoming 57 years of age and completing 5 years of service; and

"(B) is not entitled to an annuity under section 8337 of this title or subsection (a), (b), (d), (f), (h), or (j) of this section,

is entitled to an annuity.

"(2) Paragraph (1) of this subsection shall not apply to a physician, nurses, a bankruptcy judge, a judge of the United States Court of Military Appeals, or any law enforcement officer, firefighter, or air traffic controller who is not in a supervisory or administrative position, as determined by the Director of the Office of Personnel Management.".

COMPUTATION OF ANNUITY

Sec. 4. (a) The first sentence of section 8339(h) of title 5, United States Code, is amended by striking out "or (j)" and inserting in lieu thereof ", (j), or (m)".

APPLICATION OF AMENDMENTS TO OTHER FEDERAL GOVERNMENT RETIREMENT SYSTEMS

Sec. 5. The President shall extend the application of the amendments made by sections 3 and 4—

(1) to participants in the Central Intelligence Agency Retirement and Disability System and their survivors under section 292 of the Central Intelligence

Agency Retirement Act of 1964 for Certain Employees (50 U.S.C. 403 note);

(2) to participants in the Foreign Service Retirement and Disability System and their survivors under section 827 of the Foreign Service Act of 1980 (94 Stat. 2124; 22 U.S.C. 4067); and

(3) if determined appropriate by the President, in like manner to employees of the Executive branch who are participants in any other Federal Government retirement system and their survivors.

LIMITATION ON REPLACEMENT OF RETIREES

SEC. 6. (a) For the purposes of this section—

(1) the term "Executive agency" has the meaning given such term by section 105 of title 5, United States Code, and includes the military departments specified in section 102 of such title;

(2) the term "employee" has the meaning given such term by section 2105 of such title, except subsection (e) of such section; and

(3) the term "maximum authorized number", when used with respect to the civilian employees of an Executive agency, means the excess of—

(A) the full-time employee equivalent of the total number of civilian employees that were employed in positions in the Executive agency on July 1, 1986, over

(B) the full-time employee equivalent of the total number of such employees who have retired under any Federal Government retirement system during the period beginning on July 1, 1986, and ending on January 1, 1987.

(b) Notwithstanding any other provision of law, except as provided in subsection (c), (d), (e), or (f), an appointment may not be made to a position of civilian employment in an Executive agency on any day during the period beginning on July 1, 1986, and ending on October 1, 1991, unless the full-time employee equivalent of the total number of civilian employees of the Executive agency after such appointment on such day does not exceed the maximum authorized number of civilian employees determined for such agency on such day.

(c)(1) The Director of the Office of Personnel Management may waive the application of subsection (b) in the case of a position or a class of positions in an Executive agency if the Director determines that—

(A) the position or positions are essential for the performance of a mission of the Executive agency; or

(B) the estimated aggregate cost of such position or class of positions during the period described in subsection (b) does not exceed the estimated aggregate amount of user fees that will be collected by the Federal Government for services performed during such period by an employee in such position or employees in such positions under a program or programs administered by such Executive agency.

(2) The Director shall consult with—

(A) the head of an Executive agency in making a determination described in paragraph (1)(A) in the case of such agency; and

(B) the Director of the Office of Management and Budget in making a determination described in paragraph (1)(B).

(d) Subsection (b) does not apply in the case of an individual who is reinstated to a position of employment the individual formerly held in an Executive agency by order of a court of the United States having jurisdiction to issue such order or by reason of an action of the Merit Systems Protection Board or the Special Counsel of the Merit Systems Protection Board authorized by law.

(e) Individuals employed by an Executive agency on July 1, 1986, and persons appointed to positions in an Executive agency after such date within the limitation prescribed in subsection (b) may be transferred during the period referred to in such subsection to fill a vacancy in such agency, subject to any provision of law (other than subsection (b)) limiting authority to make such transfers.

(f) Subsection (b) shall not apply during a period of war declared by the Congress or a period of national emergency declared by the Congress or the President.

(g) The President shall take appropriate action to ensure that there is no increase in the procurement of personal services by contract by reason of the enactment of this section except in cases in which it is to the financial advantage of the Federal Government to increase the procurement of such services.

(h) The Director of the Office of Personnel Management may prescribe regulations to carry out this section.

LOCAL AUTHORIZATIONS

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-081, Fire Protection and Prevention Series	Clear Air Force Base, AK	GS-4 GS-5 GS-6	$15,436 16,310 16,575	$18,883 20,162 21,390	$383 428 535	#011	Increase-- All Grades 1/8/86
GS-083, Airport Police Officer	Washington, DC (Dulles and National Airports)	GS-4 GS-5 GS-6 GS-7 GS-8 GS-9	16,723 18,710 19,785 20,794 21,714 22,531	20,584 23,030 24,600 26,140 27,636 29,074	429 480 535 594 658 727	#025	Increase-- All Grades 4/13/86
GS-083, Police Series	Portsmouth Naval Shipyard, NH	GS-4 GS-5	14,149 15,350	18,010 19,670	429 480	#006	Establish 3/11/86
GS-083, Police Series	Lower Colorado River Region, Boulder City, NV	GS-5 GS-6	16,681 18,082	20,848 22,735	463 517	#026	No change-- Both grades 12/9/84
GS-083, Police Series	Naval Weapons Center, China Lake, CA	GS-3 GS-4 GS-5 GS-6	14,132 15,007 15,830 16,575	17,201 18,454 19,682 21,390	341 383 428 535	#022	Increase-- All Grades 1/8/86
GS-083, Police Series	Fort Ord, CA and Presidio of Monterey	GS-4 GS-5 GS-6 GS-7	15,007 16,310 17,645 18,418	18,868 20,630 22,460 23,764	429 480 535 594	#002	Establish 3/11/86
GS-xxx, (Typing/Stenography) (all clerical positions requiring a qualified typist or stenographer)	Hanscom Air Force Base, Bedford, MA	GS-3 GS-4 GS-5	12,604 13,720 14,870	16,042 17,581 19,190	382 429 480	#169	No change; not scheduled for review 3/13/85
GS-312-3/4/5; Stenographers, Secretaries GS-318-3/4/5; Clerk-Typists, GS-322-3/4/5; Data Transcribers, GS-356-3/4/5; and all other clerical positions, GS-3/4/5, with the parenthetical title (Typing)	Selected agencies in Eastern Massachusetts as described below: AGENCY COVERAGE: General Services Administration Veterans Administration Department of Housing and Urban Development National Credit Union Administration Small Business Administration State Department Department of Agriculture Equal Employment Opportunity Commission Department of the Interior Department of Commerce	GS-3 GS-4 GS-5	12,604 13,720 14,870	16,042 17,581 19,190	382 429 480	#009	Establish 4/29/86

LOCAL AUTHORIZATIONS

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-312, etc., Eastern Massachusetts--Continued							
or (Stenograhpy) classified under the Typing and Stenography Grade Evaluation Guide issued by Transmittal Sheet No. 34, January 1979, or with the parenthetical title (Data Transcriber).	Department of the Treasury Department of Justice Department of the Navy Department of Labor Envivonmental Protection Agency Office of Personnel Management National Guard Bureau Department of the Air Force (excluding employees at Hanscom AFB)		Department of Transportation Department of Health and Human Services (excluding GS-998, Claims Clerk) Federal Emergency Management Agency Defense Logistics Agency and miscellaneous Defense agencies Securities and Exchange Commission Department of the Army (excluding employees at Fort Devens and Hanscom AFB)				

GEOGRAPHIC COVERAGE:

1) Andover-Lawrence
2) Gloucester
3) Newburyport
4) Salem-Lynn-Beverly
5) Natick-Framingham
6) Cambridge
7) Lexington-Concord-Winchester
8) Ayer-Ft. Devens
9) Bedford-Hanscom AFB-Wilmington-Burlington
10) Lowell
11) Watertown-Newton
12) Waltham
13) Norwood
14) Needham-Dedham
15) Quincy-Weymouth-South Weymouth
16) Hanover
17) Hingham
18) Brockton
19) Boston (Inc. East Boston Dorchester & Chelsea)
20) South Boston
21) Jamaica Plain
22) West Roxbury
23) Worcester
24) Fitchburg
25) Leominster
26) Athol
27) Hubbardston

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-312, Clerk Stenographer and Reporter Series GS-318, Secretary Series GS-322, Clerk Typist Series GS-356, Data Transcribing Series*	California: Los Angeles, within the area bounded by Manchester Avenue on the North, Crenshaw Blvd. on the East, Artesia Blvd. & Gould Avenue on the South, & the Pacific Ocean on the West. Included are positions in the Defense Investigative Service located at 15110 Atkinson Avenue, Gardena, CA, and Army Plant Representative Office - Hughes Helicopter, Los Angeles (Culver City), CA, and the Centers for Disease Control (other positions within the Department of Health and Human Services are excluded.)	GS-2	$12,116	$14,913	$311	#165	No change in dollar amounts; Centers for Disease Control added to coverage
		GS-3	13,651	16,801	350		
		GS-4	14,933	18,470	393		
		GS-5	15,828	19,788	440		
		GS-6	16,661	21,071	490		
							1/8/86

*And all other positions in grades GS-2 through GS-6 with the parenthetical title (Typing) or (Stenography) classified under the Typing and Stenography Grade Evaluation Guide issued by Transmittal Sheet No. 34, January 1979 or with the parenthetical title (Data Transcriber).

LOCAL AUTHORIZATIONS

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-327, Clerk Typist GS-356, Data Transcriber	South San Francisco Bay area within the boundaries of Coyote, Menlo Park Moffett Naval Air Station Morgan Hill, Mountain View, Palo Alto, Redwood City, San Jose, Santa Clara, Sunnyvale, and Union City, California	GS-2	$13,216	$16,267	$339	#010	Establish 5/24/86
		GS-3	14,896	18,336	382		
		GS-4	15,865	19,726	429		
		GS-5	16,790	21,110	480		
GS-318, Secretary		GS-4	15,865	19,726	429		
		GS-5	16,790	21,110	480		
		GS-6	17,645	22,460	535		
		GS-7	18,418	23,764	594		
GS-203, 303, 335, 344, 392, 525, 561, 679, 1087, 1106, 1411, 2005 (limited to those positions having the parenthetical title (typing) or (stenography).	The following agencies are covered by this authorization: Departments of Treasury, Navy, Air Force the Veterans Administration, NASA, U.S. Geological Survey, and the Defense Contract Audit Agency.	GS-2	13,216	16,267	339		
		GS-3	14,896	18,336	382		
		GS-4	15,865	19,726	429		
		GS-5	16,790	21,110	480		
		GS-6	17,645	22,460	535		
		GS-7	18,418	23,764	594		
All Clerical Series and Certain Technical Series*	Juneau, AK	GS-1	10,847	13,141	286¹	#159	No Change—All Grades
		GS-2	11,951	14,858	323		
		GS-3	12,742	16,018	364		
		GS-4	13,487	17,168	409		
		GS-5	14,631	18,744	457		10/1/86

[1] The within-grade increase at GS-1 varies between steps 1, 2 and 3. The rates of basic pay payable at these steps are as follows: $10,847 (step 1); $10,860 (step 2); and $11,139 (step 3). The within-grade increase shown should be applied to construct all remaining step rates.

*THE FOLLOWING SERIES ARE INCLUDED IN THIS SPECIAL RATE AUTHORIZATION:

GS-072 Fingerprint Identification Series
GS-134 Intelligence Aid and Clerk Series
GS-203 Personnel Clerical and Assistance Series
GS-204 Military Personnel Clerical and Technician
GS-302 Messenger Series
GS-303 Miscellaneous Clerk and Assistant Series
GS-304 Information Receptionist Series
GS-305 Mail and File Series
GS-309 Correspondence Clerk Series
GS-312 Clerk-Stenographer and Reporter Series
GS-313 Work Unit Supervising Series
GS-318 Secretary Series
GS-319 Closed Microphone Reporting Series
GS-322 Clerk-Typist Series
GS-332 Computer Operation Series
GS-561 Budget Clerical and Assistance Series
GS-590 Time and Leave Series
GS-963 Legal Instruments Examining Series
GS-986 Legal Clerk and Technician Series
GS-998 Claims Clerical Series
GS-1001 General Arts and Information Series
GS-1021 Office Drafting Series
GS-1046 Language Clerical Series
GS-1087 Editorial Assistance Series
GS-1101 General Business and Industry (one grade interval work only)
GS-1106 Procurement Clerical and Assistance Series
GS-1107 Property Disposal Clerical and Technician Series
GS-1411 Library Technician Series
GS-1421 Archives Technician Series
GS-1531 Statistical Assistant Series

(continued on next page)

LOCAL AUTHORIZATIONS

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-335 Computer Clerk and Assistant Series GS-344 Management Clerical and Assistant Series GS-350 Equipment Operator Series GS-351 Printing Clerical Series GS-354 Bookkeeping Machine Operation Series GS-355 Calculating Machine Operation Series GS-356 Data Transcribing Series GS-357 Coding Series GS-359 Electric Accounting Machine Operation GS-361 Equal Opportunity Assistance Series GS-382 Telephone Operating Series GS-385 Teletypist Series GS-394 Communications Clerical Series GS-503 Financial Clerical and Assistance Series GS-525 Accounting Technician Series GS-530 Cash Processing Series GS-540 Voucher Examining Series GS-544 Payroll Series GS-545 Military Pay Series GS-1802 Compliance Inspection and Support Series GS-1897 Customs Aid Series GS-2001 General Supply Series GS-2005 Supply Clerical and Technician Series GS-2091 Sales Store Clerical Series GS-2101 Transportation Specialist Series GS-2131 Freight Rate Series GS-2132 Travel Series GS-2133 Passenger Rate Series GS-2134 Shipment Clerical Series GS-2151 Dispatching Series							
GS-322, Clerk-Typist Series, limited to positions where at least 50 percent of the duties involve the operation of word processing equipment. GS-313, Work Unit Supervisors, limited to positions supervising word processing units.	Army Corps of Engineers, Federal Center South, Seattle, WA	GS-4	$14,340	$17,787	$383	#163	Increase
		GS-5	14,994	18,846	428		No change 1/8/86
GS-322, Clerk-Typist (Medical Transcriptionist) Series	VA Medical Center, Sepulveda, CA	GS-3	12,852	16,155	367	#166	No change-- All Grades 3/25/84
		GS-4	14,427	18,135	412		
		GS-5	15,220	19,369	461		
GS-303, Miscellaneous Clerk and Assistant Series GS-318, Secretary Series GS-322, Clerk-Typist Series*	Barrow, AK	GS-1	11,686	14,197	279	#167	Increase-- All Grades
		GS-2	13,216	16,051	315		
		GS-3	14,896	18,091	355		
		GS-4	16,723	20,305	398		
		GS-5	18,710	22,724	446		
		GS-6	20,855	25,508	517		1/8/86

*And all other positions in grades GS-1 through GS-6 with the parenthetical title (Typing) classified under the Typing and Stenography Grade Evaluation Guide issued by Transmittal Sheet No. 34, January 1979.

LOCAL AUTHORIZATIONS

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-203, Personnel Clerical	Bethel, AK	GS-1	$10,764	$13,002	$279¹	#168	Increase--
and Assistant Series		GS-2	12,199	15,034	315		All Grades
GS-303, Miscellaneous Clerk		GS-3	13,750	16,945	355		
and Assistant Series		GS-4	15,436	19,018	398		
GS-318, Secretary Series		GS-5	17,270	21,284	446		
GS-322, Clerk-Typist Series		GS-6	18,180	22,653	497		1/8/86
GS-382, Telephone Operating Series							
GS-525, Accounting Technician Series							
GS-540, Voucher Examining Series							
GS-1101, General Business and Industry Series (one grade interval work only)							
GS-2005, Supply Clerical and Technician Series							
GS-2132, Travel Series*							

¹The within grade increase between steps 1, 2 and 3 varies. The rates of basic pay payable at these steps are as follows: step 1 -- $10,764; step 2 -- $10,777; step 3 -- $11,049. The within grade increase shown should be applied to construct all remaining step rates.

*And all other positions in grades GS-1 through GS-6 with the parenthetical title (Typing) classified under the Typing and Stenography Grade Evaluation Guide issued by Transmittal Sheet No. 34, January 1979.

GS-610, Nurse Series	Washington, DC MSA	GS-4	15,739	19,321	398	#304	Increase--
		GS-5	16,681	20,695	446		All Grades
		GS-7	18,537	23,883	594		1/8/86
GS-610, Nurse (Critical Care Positions Only)	Washington, DC MSA	GS-9	23,258	29,549	699	#535	Increase 1/8/86
GS-610, Nurse and Psychiatric Nurse	Saint Elizabeths Hospital, Washington DC	GS-4	15,133	18,715	398	#534	No change--
		GS-5	16,603	20,752	461		All Grades
		GS-7	19,422	24,561	571		
		GS-9	22,363	28,654	699		10/14/84
GS-610, Operating Room Nurse	Fitzsimons Army Medical Center, Aurora, CO	GS-9	22,969	29,287	702	#501	Increase 1/8/86
GS-610, Nurse, limited to positions titled Nurse, Clinical Nurse, and Operating Room Nurse	San Francisco and Oakland, CA PMSAs	GS-5	18,710	23,030	480	#352	No change*
		GS-7	23,170	28,516	594		No change*
		GS-9	26,795	33,113	702		Increase--
		GS-10	27,868	34,825	773		All Remain-
		GS-11	28,820	35,470	850		ing Grades 1/3/86

*Rates at GS-5 and GS-7 were already at the highest levels allowed by law and could not be further increased.

LOCAL AUTHORIZATIONS

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	FINAL ACTION
GS-620, Vocational Nurse	San Francisco and Oakland, CA PMSAs	GS-3	$13,304	$16,373	$341	#394	No change-- All Grades 10/1/84
		GS-4	14,554	18,001	383		
		GS-5	15,422	19,274	428		
GS-620, Practical Nurse	All Alaska Area Native Health Service Facilities	GS-3	13,653	16,974	369	#536	No change-- All Grades 10/1/84
		GS-4	14,911	18,637	414		
		GS-5	15,755	19,922	463		
		GS-6	16,531	21,184	517		
GS-621, Nursing Assistant	All Alaska Area Native Health Service Facilities	GS-2	11,456	14,399	327	#467	No change-- All Grades 10/1/84
		GS-3	12,915	16,236	369		
		GS-4	13,939	17,521	398		
GS-622, Medical Supply Aid and Technician Series	All Alaska Area Native Health Service Facilities	GS-1	10,286	12,529	Varies*	#468	No change-- All Grades 1/1/84
		GS-2	11,018	13,853	315		
		GS-3	12,065	15,260	355		
		GS-4	13,143	16,725	398		
GS-644, Medical Technologist Series	All IHS Facilities within the Navajo and Phoenix Indian Health Areas	GS-5	16,579	20,431	428	#494	Increase-- Both Grades 1/8/86
		GS-7	18,448	23,794	594		
GS-644, Medical Technologist Series	All Alaska Area Native Health Service Facilities	GS-5	18,070	22,237	463	#493	No change-- Both Grades 2/7/86
		GS-7	20,665	25,831	574		
GS-647, Diagnostic Radiologic Technologist Series	Fitzsimons Army Medical Center, Aurora, CO	GS-5	15,830	20,150	480	#308	Establish 3/11/86
		GS-6	17,110	21,925	535		
GS-647, Diagnostic Radiologic Technologist Series	San Francisco-Oakland San Jose, CA CMSA	GS-4	15,531	19,113	398	#363	No change-- All Grades 1/1/86
		GS-5	16,491	20,505	446		
		GS-6	17,386	21,859	497		
		GS-7	18,215	23,183	552		

*The full range of rates is as follows: $10,286; $10,572; $10,585; $10,857; $11,135: $11,414; $11,693; $11,971; $12,250; $12,529.

LOCAL AUTHORIZATIONS

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	FINAL ACTION
GS-647, Diagnostic Radiologic Technologist Series	All Alaska Area Native Health Service Facilities	GS-4	$15,325	$19,051	$414	#471	No change--All Grades
		GS-5	16,218	20,385	463		
		GS-6	17,565	22,218	517		
		GS-7	18,943	24,109	574		1/1/84
GS-648, Therapeutic Radiologic Technologist Series	Washington, DC MSA.	GS-4	15,531	19,113	398	#360	No change--All Grades
		GS-5	17,383	21,397	446		
		GS-6	18,380	22,853	497		
		GS-7	20,091	25,257	574		
		GS-8	21,617	27,341	636		
		GS-9	22,470	28,788	702		10/1/84
GS-648, Therapeutic Radiologic Technologist Series	San Francisco and Oakland, CA PMSAs	GS-5	17,383	21,397	446	#390	No change--All Grades
		GS-6	18,380	22,853	497		
		GS-7	19,871	24,839	552		10/2/83
GS-649, Inhalation Therapy Technician	Walter Reed Army Medical Center and the U.S. Soldiers' & Airmen's Home in Washington, D.C.	GS-7	19,606	24,952	594	#007	Establish 3/11/86
GS-649, Heart Lung Machine Technician	Keesler, AFB, Biloxi, MS	GS-9	26,166	32,484	702	#537	Increase 1/8/86
GS-649, Medical Machine Technician	Alaska Area Native Health Service Facilities in Anchorage and Bethel, AK	GS-5	16,310	20,630	480	#001	Establish 3/11/86
		GS-6	17,110	21,925	535		
GS-660, Pharmacist Series	San Francisco, CA	GS-9	23,874	29,949	675	#457	Increase--Both Grades
		GS-11	28,039	35,950	879		1/8/86
GS-660, Pharmacist Series	Los Angeles and San Bernardino Counties, CA	GS-9	25,980	32,055	675	#525	Increase--Both Grades
		GS-11	28,037	35,390	817		1/8/86

LOCAL AUTHORIZATIONS

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-660, Pharmacist Series	Silas Hayes Army Community Hospital, Fort Ord, CA	GS-7	$20,200	$25,546	$594	#005	Establish 3/11/86
		GS-9	23,985	30,528	727		
		GS-11	28,139	36,050	879		
GS-661, Pharmacy Technician Series	San Francisco-Oakland San Jose, CA CMSA	GS-3	12,281	15,350	341	#386	No change--Both Grades 1/1/85
		GS-4	13,405	16,852	383		
GS-681, Dental Assistant	All Alaska Area Native Health Service Facilities	GS-2	10,585	13,223	315	#473	No change--All Grades 10/1/84
		GS-3	12,915	16,236	369		
		GS-4	13,669	17,395	414		
		GS-5	14,829	18,996	463		

*The within-grade increase varies between steps 1 and 2. The step 2 rate is $10,703. The within grade increase shown should be applied to construct all remaining step rates.

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-682, Dental Hygiene Series	State of California	GS-4	15,436	19,162	414	#328	Increase--All Grades 1/8/86
		GS-5	16,790	20,957	463		
		GS-6	18,180	22,833	517		
		GS-7	19,012	24,178	574		
GS-699, Ultrasound Technician	Naval Hospital, Philadelphia, PA	GS-3	14,320	17,623	367	#533	No change--All Grades 10/16/84
		GS-4	16,075	19,783	412		
		GS-5	17,986	22,135	461		
		GS-6	19,021	23,647	514		
		GS-7	20,564	25,703	571		
GS-699, Diagnostic Ultrasound Technician	Fort Ord, CA	GS-7	20,975	25,943	552	#509	No change 4/3/83
GS-699, Health Aid and Technician Series	All Alaska Area Native Health Service Facilities	GS-3	12,177	15,498	369	#472	No change--Both Grades 1/1/85
		GS-4	13,255	16,981	414		
GS-986, Legal Clerk/Technician Series	U.S. Attorney's Office, Equal Employment Opportunity Commission, Securities and Exchange Commission, Commodity Futures Trading Commission, Executive Office for U.S. Trustees, Los Angeles, CA	GS-5	16,310	20,459	461	#903	Increase--Both Grades 1/3/86
		GS-6	17,645	22,460	535		

LOCAL AUTHORIZATIONS

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-986, Legal Clerk/ Technician (Typing)	U.S. Attorney's Office, Southern District of New York and Eastern District of New York; Commodity Futures Trading Commission, Securities and Exchange Commission (SEC), New York, NY	GS-4	$14,576	$18,302	$414	#904	Increase-- All Grades SEC added to coverage 1/8/86
		GS-5	16,305	20,472	463		
		GS-6	17,645	22,298	517		
GS-1224, Patent Examining Series (Engineering Specializations only)	Washington, DC MSA	GS-5	17,750	22,070	480	#576	No change-- All Grades 2/17/85
		GS-7	20,794	26,140	594		
		GS-9	23,985	30,528	727		
GS-1310, Physicist (Optics) and GS-800 Engineer (Optics)	Air Force Weapons Laboratory (AFWL), Kirtland Air Force Base, NM	GS-9	27,384	33,702	702	#593	No change-- All Grades 10/1/84
		GS-11	31,439	39,089	850		
		GS-12	35,639	44,801	1,018		
		GS-13	39,960	50,859	1,211		
GS-1311, Physical Science Technician Series (Radiation monitoring and control positions only)	Portsmouth Naval Shipyard, Portsmouth, NH	GS-6	18,552	23,142	510	#592	Increase-- All Grades 1/8/86
		GS-7	20,200	25,294	566		
		GS-8	21,714	27,357	627		
		GS-9	23,258	29,495	693		
GS-1311, Physical Science Technician (Radiation monitoring and control positions only)	Mare Island Naval Shipyard, CA	GS-5	18,230	22,379	461	#590	Increase-- All Grades 1/8/86
		GS-6	20,320	24,946	514		
		GS-7	22,576	27,715	571		
		GS-8	25,004	30,701	633		
		GS-9	27,620	33,911	699		
		GS-11	28,139	36,050	879		
GS-1311, Physical Science Technician (Radiation monitoring and control positions only)	Pearl Harbor Naval Shipyard, Hawaii	GS-4	15,007	18,868	429	#591	No change-- All Grades 10/1/84
		GS-5	16,310	20,630	480		
		GS-6	17,645	22,460	535		
		GS-7	19,606	24,952	594		
		GS-8	23,030	28,952	658		
		GS-9	25,439	31,982	727		

LOCAL AUTHORIZATIONS

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-1550, Computer Scientist, limited to positions within the National Aeronautics and Space Administration and the Departments of Navy, Commerce, Health and Human Services, Air Force, Army and the Defense Communications Agency	Washington, DC MSA; Annapolis, MD; Dahlgren, VA; and Patuxent River, MD	GS-5 GS-7 GS-9	$18,710 23,170 24,732	$22,823 28,264 30,969	$457 566 693	#697	Increase-- All Grades Army added to coverage 1/8/86
GS-1550, Computer Scientist (Positions within the Department of Navy)	Newport, RI and New London, CT	GS-5 GS-7 GS-9	18,252 22,603 24,103	22,266 27,571 30,178	446 552 675	#698	Increase-- All Grades 1/8/86
GS-1550, Computer Scientist	Naval Air Development Center, Warminster, PA	GS-5 GS-7 GS-9 GS-11	18,710 23,170 25,980 28,039	23,030 28,516 32,298 35,689	480 594 702 850	#004	Establish 3/11/86
GS-1980, Agricultural Commodity Grader	Hunts Point Terminal Market, New York City, NY	GS-5 GS-7 GS-9	17,270 20,794 24,712	21,590 26,140 31,255	480 594 727	#003	Establish 3/11/86

NATIONWIDE AND WORLDWIDE AUTHORIZATIONS

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE

NOTE: For all medical officer special rate authorizations listed below (tables numbered 290, 524 and 499), excluded are physicians who have received National Health Service Corps (NHSC) scholarships and who are fulfilling a service obligation through assignment to NHSC or the Department of Justice.

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-602, Medical Officer, Clinical Positions, limited to positions concerned with providing primary medical care and direct service to patients	Worldwide	GS-11	$32,687	$40,229	$838	#290	No change--All Grades
		GS-12	39,183	48,228	1,005		
		GS-13	46,593	57,348	1,195		
		GS-14	53,646	66,354	1,412		
		GS-15	58,120	73,069[1]	1,661		10/1/84

involving the performance of diagnostic, preventive and therapeutic services in hospitals, clinics, and other medical facilities. Excluded are positions involved in Preventive Medicine, including Occupational Health Medicine and Aviation Medicine, where the primary emphasis is the practice of medicine as applied to the worker and in relation to the work environment.

[1] The rate payable to employees at these rates is limited to $68,700.

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-602, Medical Officer, Research Positions, limited to non-clinical positions primarily involving the conduct of medical research and experimental work (or the review	Worldwide	GS-11	31,044	38,397	817	#524	No change--All Grades
		GS-12	37,206	46,017	979		
		GS-13	45,398	56,153	1,195		
		GS-14	50,822	63,530	1,412		10/1/84
		GS-15	54,798	69,747[1]	1,661		

or evaluation of such medical research and experimental work) or the identification of causes or sources of disease or disease outbreaks. This work may include the conduct of medical work pertaining to the evaluation of food, drugs, cosmetics, and devices. Research medical officer positions providing some primary patient care may be included.

[1] The rate payable to employees at these rates is limited to $68,700.

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-602, Medical Officer, Other Positions, includes all medical officer positions not elsewhere covered by other special salary rate authorizations for GS-602, Medical Officers.	Worldwide	GS-11	29,854	36,928	786	#499	No change--Increase--All Remaining Grades
		GS-12	36,889	45,367	942		
		GS-13	43,864	53,944	1,120		
		GS-14	48,873	60,780	1,323		
		GS-15	54,004	69,682[1]	1,742		1/1/86

[1] The rate payable to employees at this rate is limited to $68,700.

NATIONWIDE AND WORLDWIDE AUTHORIZATIONS

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-610, Nurse Series	Indian Health Service, Nationwide*	GS-4	$15,531	$18,978	$383	#531	Increase--
		GS-5	18,070	22,084	446		All Grades
		GS-7	19,422	24,390	552		
		GS-9	23,761	29,836	675		1/8/86

*"Nationwide" geographic coverage includes the areas specified in Section 591.202 of OPM's Regulations.

GS-800, Professional Series in the Engineering Group (This authorization covers GS-801, 803, 804, 806, 807, 810, 830, 840, 858, 861, 871, 890, 892, 893, 894, and 896)	Worldwide	GS-5	18,710	23,030	480	#414	No change*
		GS-7	23,170	28,516	594		No change*
		GS-9	26,893	33,211	702		Increase--
		GS-11	29,018	36,668	850		Both Grades 1/8/86 Series GS-855 deleted 2/7/86

*The rates for these grades were already at the highest levels permitted by law and could not be further increased.
NOTE: This authorization covers all engineering series except those covered by other authorizations as shown below.

GS-808, Architecture and GS-819, Environmental Engineering Series	Worldwide	GS-5	18,710	23,030	480	#421	No change--
		GS-7	23,170	28,516	594		All Grades
		GS-9	26,893	33,436	727		
		GS-11	29,018	36,929	879		1/1/85
GS-850, Electrical Engineering Series and GS-855, Electronics Engineering Series	Worldwide	GS-5	18,710	23,030	480	#422	No change*
		GS-7	23,170	28,516	594		No change*
		GS-9	27,834	34,377	727		Increase--
		GS-11	30,034	37,945	879		All Remaining Grades
		GS-12	34,034	43,898	1,096		Series GS-855 added 1/8/86

*The rates for these grades were already at the highest levels permitted by law and could not be further increased.

GS-880, Mining Engineering Series	Nationwide	GS-5	16,706	20,558	428	#417	No change--
		GS-7	20,701	25,480	531		All Grades
		GS-9	25,318	31,159	649		
		GS-11	29,068	36,142	786		
		GS-12	32,955	41,433	942		1/ /86

NATIONWIDE AND WORLDWIDE AUTHORIZATIONS

OCCUPATIONAL SERIES	GEOGRAPHIC COVERAGE	GRADE	1ST STEP RATE	10TH STEP RATE	WITHIN-GRADE INCREASE	TABLE NUMBER	ACTION AND EFFECTIVE DATE
GS-881, Petroleum Engineering Series	Nationwide	GS-5	$17,383	$21,397	$446	#415	No change-- All Grades
		GS-7	21,527	26,495	552		
		GS-9	26,331	32,406	675		
		GS-11	30,640	37,714	786		
		GS-12	34,839	43,317	942		
		GS-13	39,186	49,266	1,120		1/1/84
GS-1321, Metallurgy Series	Nationwide	GS-5	17,830	21,943	457	#589	No change-- All Grades
		GS-7	22,084	27,178	566		
		GS-9	24,941	31,178	693		
		GS-11	27,659	35,201	838		1/1/84
GS-1654, Printing Management Series, limited to employees who have at least a Baccalaureate Degree with a major in Printing Management	Nationwide	GS-5	16,268	20,228	440	#725	No change 1/1/85

STATEMENT OF
HONORABLE CONSTANCE HORNER
DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

AT A HEARING ON

S. 2197
THE FEDERAL EMPLOYEES' OPTIONAL EARLY
RETIREMENT ACT OF 1986

MAY 15, 1986

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

THANK YOU FOR INVITING ME TO APPEAR TODAY TO DISCUSS THE ADMINISTRATION'S VIEWS ON S. 2197, THE FEDERAL EMPLOYEES' OPTIONAL EARLY RETIREMENT ACT OF 1986. I AM ACCOMPANIED TODAY BY MR. JAMES W. MORRISON, JR., OPM'S ASSOCIATE DIRECTOR FOR COMPENSATION.

S. 2197 IS BASED ON AN INTERESTING CONCEIT: NAMELY, THAT THE FEDERAL GOVERNMENT, IN ITS EFFORTS TO REDUCE THE SIZE OF ITS WORK FORCE, SHOULD DO SO IN THE MOST HUMANE WAY POSSIBLE, BY OFFERING A VERY WIDE SEGMENT OF ITS WORK FORCE THE OPPORTUNITY TO RETIRE EARLY. THIS APPROACH HAS BEEN

USED BY MANY LEADING PRIVATE COMPANIES WHEN THEY HAVE BEEN FACED WITH THE NEED FOR ACROSS-THE-BOARD PERSONNEL REDUCTIONS, DRIVEN BY ADVERSE ECONOMIC CONDITIONS AND BUSINESS CONSIDERATIONS. S. 2197 RAISES THE ISSUE OF WHETHER A MORE FLEXIBLE EARLY RETIREMENT TOOL WOULD BE NEEDED IN FEDERAL PERSONNEL POLICY IF A DEEP REDUCTION WERE TO BE REQUIRED OR PLANNED FOR THE FEDERAL WORK FORCE.

UNDER S. 2197, THERE WOULD BE A GOVERNMENTWIDE OPPORTUNITY FOR EARLY RETIREMENT FROM JULY THROUGH DECEMBER OF THIS YEAR. EARLY RETIREMENT WOULD BE AVAILABLE TO THE SAME AGE AND SERVICE COMBINATIONS THAT ARE NOW COVERED BY OUR MORE LIMITED EARLY VOLUNTARY AND EARLY INVOLUNTARY RETIREMENT PROGRAMS, THAT IS, 20 YEARS OF SERVICE AND AGE 50, OR 25 YEARS OF SERVICE AND ANY AGE. IN ADDITION, S. 2197 WOULD EXTEND THE EARLY RETIREMENT ELIGIBILITY TO TWO NEW CATEGORIES THAT HAVE NOT BEEN COVERED BEFORE, 15 YEARS OF SERVICE AND AGE 55, AND 5 YEARS OF SERVICE AND AGE 57. CERTAIN SHORTAGE OCCUPATIONS SPECIFIED IN THE LAW WOULD BE EXCLUDED.

THE ATTRACTIVENESS OF THIS TO THOSE EMPLOYEES WHO WOULD BE ELIGIBLE TO AND WANT TO RETIRE IS OBVIOUS. TO THE EXTENT THAT IT IS A MORE ECONOMICAL WAY OF ACHIEVING REQUIRED

EMPLOYMENT REDUCTIONS, IT ALSO HAS APPEAL TO THOSE OF US, IN BOTH THE EXECUTIVE AND LEGISLATIVE BRANCHES, WHO SHARE IN THE GOAL OF REDUCING THE SIZE OF THE FEDERAL GOVERNMENT. HOWEVER, THERE ARE SERIOUS DISADVANTAGES TO A PROGRAM OF EARLY RETIREMENT. FOR EXAMPLE, COMPARED TO THE USE OF ATTRITION TO ACHIEVE PERSONNEL REDUCTIONS, WHICH IS CERTAINLY THE NORMAL METHOD, EARLY RETIREMEBNT IS VERY COSTLY. MOREOVER, THE EARLY RETIREMENT METHOD TURNS DECISION-MAKING ABOUT HOW A REDUCTION IS ACHIEVED OVER TO THE EMPLOYEES AND MAKES THE PROCESS ALMOST RANDOM. ALSO, WHILE THE RETIREMENT OF AN EMPLOYEE CAN SAVE THE GOVERNMENT MONEY, SINCE AN EMPLOYEE'S ANNUITY IS LESS THAN SALARY, THIS SAVINGS TURNS INTO A COST IF THE RETIRED EMPLOYEE IS REPLACED. IN RECOGNITION OF THIS PROBLEM, S. 2197 WOULD ESTABLISH A 5-YEAR FREEZE ON REPLACING EMPLOYEES WHO RETIRE DURING THE 6-MONTH EARLY RETIREMENT PERIOD. OPM WOULD BE PERMITTED TO GRANT EXCEPTIONS TO THIS FREEZE IN THE CASE OF POSITIONS THAT ARE ESSENTIAL TO THE MISSION OF AN AGENCY OR THAT ARE SUPPORTED BY USER FEES.

AS INDICATED EARLIER, S. 2197 AND ITS CONCEPT OF A GOVERNMENTWIDE EARLY RETIREMENT PROGRAM HAS STIMULATED A BROAD REEXAMINATION IN THE EXECUTIVE BRANCH OF THE ROLE OF EARLY RETIREMENT IN FEDERAL PERSONNEL POLICY, AND THE PRESIDENT'S DOMESTIC POLICY COUNCIL IS CONSIDERING THIS ISSUE. WHILE NO CONCLUSIONS HAVE BEEN REACHED ON RECOMMENDATIONS TO BE MADE TO THE PRESSIDENT, I WOULD LIKE TO SHARE WITH YOU SOME OF OUR THOUGHTS ON THIS ISSUE.

FIRST, I THINK WE NEED TO EMPHASIZE THAT ALL OF US IN THE EXECUTIVE BRANCH ARE VERY CONCERNED THAT A GOVERNMENTWIDE EARLY RETIREMENT OPPORTUNITY COULD LEAD TO EXCESSIVE LOSSES OF OUR MOST VALUABLE EMPLOYEES. UNDER THE PRESIDENT'S BUDGET, OUR CIVILIAN WORK FORCE WOULD BE REDUCED BY ABOUT 23,500 IN FISCAL YEAR 1987--A GOAL THAT CAN BE ACHIEVED LARGELY OR COMPLETELY BY ATTRITION RATHER THAN REDUCTION IN FORCE--YET THE NUMBER WHO MIGHT RETIRE IN A GOVERNMENTWIDE "EARLY OUT" HAS BEEN ESTIMATED TO POSSIBLY APPROACH 3 TIMES THAT NUMBER, AND COULD GO MUCH HIGHER. INCLUDED IN THIS EXODUS WOULD BE MANY OF OUR MOST VALUABLE, AND MOST DIFFICULT-TO-REPLACE, EMPLOYEES. THIS WOULD BE TRUE EVEN IN AGENCIES AND PROGRAMS THAT ARE SLATED TO REMAIN FULLY FUNDED OR TO GROW. THIS COULD HAVE A DEVASTATING EFFECT ON THE ABILITY OF OUR MANAGERS TO MANAGE, AND COULD GRAVELY HARM THE EFFICIENCY AND EFFECTIVENESS OF GOVERNMENT, AND COULD EVEN ENDANGER THE NATIONAL DEFENSE.

ACCORDINGLY, WE THINK IT WOULD BE ESSENTIAL THAT ANY LEGISLATION GIVE THE PRESIDENT, OR HIS DESIGNEE, DISCRETION TO EXCLUDE FROM ANY NEW EARLY RETIREMENT AUTHORITY ANY AGENCY OR COMPONENT THAT HE BELIEVES SHOULD NOT BE COVERED.

A SECOND ISSUE THAT HAS ARISEN IS THE EXISTENCE OF STATUTORY IMPEDIMENTS TO AGENCY MANAGEMENT.

IN WHAT I CONSIDER TO BE A SERIOUS INTRUSION INTO THE EXECUTIVE'S ABILITY TO MANAGE, CONGRESS HAS SEEN FIT IN RECENT YEARS TO REQUIRE VARIOUS AGENCIES AND PROGRAMS TO MAINTAIN CERTAIN MINIMUM EMPLOYMENT LEVELS. FOR EXAMPLE, STATUTORY EMPLOYMENT FLOORS OR PROHIBITIONS ON EMPLOYMENT CEILINGS EXIST FOR PROGRAMS FINANCED BY THE INTERIOR APPROPRIATIONS BILL, VETERANS MEDICAL CARE, AND FOR PARTS OF A NUMBER OF OTHER AGENCIES. INDEED, THE 1986 DEPARTMENT OF AGRICULTURE APPROPRIATIONS BILL WOULD SET EMPLOYMENT FLOORS FOR THREE AREAS OF THE DEPARTMENT OF AGRICULTURE. THE ADMINISTRATION HAS STATED ITS OPPOSITION TO THE CONGRESSIONAL PRACTICE OF SETTING EMPLOYMENT FLOORS, INCLUDING THOSE FOR FIELD OFFICES, WHICH MAKE IT IMPOSSIBLE FOR AGENCIES TO MANAGE FLUCTUATIONS IN THEIR WORKLOADS OR ABSORB REDUCTIONS IN THE MOST EFFICIENT MANNER. THIS IMPEDIMENT TO EXECUTIVE BRANCH MANAGEMENT WOULD BE EXACERBATED AS EMPLOYEES RETIRED FROM AGENCIES CONTROLLED BY EMPLOYMENT FLOORS.CLEARLY, ALL SUCH STATUTORY EMPLOYMENT FLOORS WOULD HAVE TO BE ELIMINATED IF WE ARE TO REDUCE THE SIZE OF THE WORK FORCE RATIONALLY AND EQUITABLY.

ADDITIONALLY, WE ARE CONCERNED THAT LANGUAGE IN THE BILL MAY PLACE RESTRICTIONS ON CONTRACTING OUT. AGENCIES MUST BE FREE TO CONTRACT OUT WHEN IT IS COST-EFFECTIVE TO DO SO.

FINALLY, WE BELIEVE THAT A 5-YEAR EMPLOYMENT LIMITATION, WITH ONLY NARROW WAIVER AUTHORITY, WOULD BE EXCESSIVELY RIGID AND COULD CAUSE SERIOUS HARM TO THE NATIONAL DEFENSE AND OTHER CRITICAL PROGRAMS. HERE, TOO, WE THINK THE ONLY ACCEPTABLE APPROACH WOULD BE TO GIVE THE PRESIDENT, OR HIS DESIGNEE, COMPLETE DISCRETION OVER THE DEGREE TO WHICH HIRING WOULD BE PERMITTED FOR VARIOUS AGENCIES AND COMPONENTS, SO AS TO ACCOMMODATE THE NEEDS OF THE GOVERNMENT AND SHIFTING PROGRAM PRIORITIES.

ONE POSSIBLE APPROACH WOULD BE TO EMPHASIZE EXECUTIVE FLEXIBILITY AND ELIMINATE THE PERSONNEL RESTRICTIONS THAT I HAVE OUTLINED TODAY AND TO DEVELOP A SORT OF "STANDBY" EARLY RETIREMENT AUTHORITY THAT WOULD PLACE THE REQUISITE DISCRETION FOR INVOKING, INCLUDING, EXCLUDING, AND RE-HIRING APPROPRIATELY WITH THE PRESIDENT.

AS I INDICATED ABOVE, WE ARE CONTINUING TO REVIEW THIS SUBJECT IN THE EXECUTIVE BRANCH, BUT I HOPE THIS INDICATION OF OUR VIEWS AT THE PRESENT TIME WILL BE HELPFUL TO THE COMMITTEE.

THANK YOU. I WOULD BE PLEASED TO ANSWER ANY QUESTIONS.

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 a.m.
May 15, 1986

STATEMENT OF

ROSSLYN S. KLEEMAN, SENIOR ASSOCIATE DIRECTOR

GENERAL GOVERNMENT DIVISION

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

ON

S. 2197, OPTIONAL EARLY RETIREMENT

PROGRAM FOR FEDERAL EMPLOYEES

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss S. 2197, a bill that proposes to establish a temporary governmentwide early retirement opportunity for federal employees. The bill would allow employees who meet specified age and years of service criteria (any age with 25 years of service, age 50 with 20 years of service, age 55 with 15 years, or age 57 with 5 years) to retire on immediate annuities. Their benefit amounts would be reduced by 2 percent for each year they are under age 55. The early retirement option would be available for a six-month period ending December 31, 1986, and apply to all federal retirement systems. Certain employees in hard to fill positions and those already covered by special early retirement provisions would be excluded. Moreover, unless exceptions are granted, agencies could not replace early retiring employees until October 1991 but they could promote internally to fill vacant positions.

Most of the employees who would be eligible to retire under the bill are covered by the civil service retirement system. It is the government's largest retirement system for civilian employees. The system generally requires employees to be age 55 with 30 years of service, age 60 with 20 years, or age 62 with 5 years, before they can retire. Thus, the bill is proposing a considerable liberalization of the retirement eligibility criteria.

Early retirements can be authorized under current law. However, they are generally limited to situations where agencies are undergoing major employment reductions. No such requirement would be imposed by the bill. Also, early retirement is now available only to employees who are at least age 50 with 20 years of service or any age with 25 years.

According to the latest data available from the Office of Personnel Management, about 250,000 federal employees, or about 10 percent of the workforce, are eligible for regular retirement. Under the bill, an additional 470,000 employees would be eligible for early retirement. Thus, over 700,000 employees, or 25 percent of the workforce, could elect immediate retirement if the bill were enacted.

Normally, about one-third of all employees eligible for regular retirement retire each year. It is difficult, in today's climate, to estimate how many employees would elect early retirement. Estimates range from 15 to 30 percent of those eligible. Also, the proposal being considered by the Congress to change the way in which federal pensions are taxed could be an additional incentive for employees to take advantage of an early retirement opportunity.

The early retirement of some federal employees under the bill could minimize or substitute for reductions-in-force that agencies may face as a result of budget reductions associated with the Balanced Budget Act of 1985. This would help to save jobs for recently hired employees, many of whom are women and minorities with little seniority. Also, promotion opportunities would be increased for younger employees. Furthermore, the proposal could save billions of dollars if the retiring employees are not replaced.

On the other hand, agencies' programs could be seriously disrupted if large numbers of federal employees retired and could not be replaced. Considering the time required to seek and obtain waivers from the hiring freeze in addition to the normal recruiting and appointment process, it could take a year or longer to replace key employees. Furthermore, since the government would be losing its most experienced workers, agencies' training costs could be expected to increase. It must also be recognized that little if any savings would result from the early retirements if large numbers of waivers from the hiring freeze are granted.

We are particularly concerned that the bill is not targeted to grant early retirements only where necessary or desirable. For example, the Postal Service would experience small budget cuts under the Balanced Budget Act, yet as many as 100,000 of its workers could take early retirement. Most of these would have to be immediately replaced in order not to seriously disrupt mail service. Also, when combined with the incentive to leave before the possible tax reform measure becomes effective, the proposal could result in mass retirements in the Senior Executive Service where over 50 percent of its members would be eligible for retirement.

If the Committee is convinced that an early retirement bill is appropriate, we suggest that a more focused early retirement option would better serve the purpose. Congress may wish to consider waiving for a limited period the current requirement that a substantial reduction-in-force is required before early retirements can be authorized. Agencies could then seek approval from the Office of Personnel Management to offer early retirement to selected groups of employees along with restricted hiring. Agencies should be required to show that such early retirements would not seriously disrupt their programs and would result in net overall savings to the government. The early retirements could permit agencies to reduce or realign their workforces in an orderly manner and could result in substantial savings.

This concludes my prepared remarks. I will be pleased to answer any questions you may have.

Senior Executives Association

TESTIMONY OF

SENIOR EXECUTIVES ASSOCIATION

on S.2197

FEDERAL EMPLOYEES OPTIONAL EARLY RETIREMENT ACT

Before the

GOVERNMENTAL AFFAIRS COMMITTEE

UNITED STATES SENATE

May 15, 1986

Presented by

G. Jerry Shaw, General Counsel

P.O. BOX 7610 • BEN FRANKLIN STATION • WASHINGTON, D.C. 20044
202-535-4328

Good morning Mr. Chairman. Thank you very much for the opportunity to present the views of career senior executives on S.2197, the Federal Employees Optional Early Retirement Act of 1986.

Mr. Chairman, we have been approached by a substantial number of career senior executives who have urged this Association to support S.2197 so that they may leave the government. These people are convinced that the only time they are going to be appreciated by the Administration, the Congress and the American people is when they leave. They are convinced that no matter how important their job, how much productive work and leadership they provide the federal workforce, and how important the experience they have accumulated over their federal career, no one will notice the importantance of that contribution until it is no longer made. Various sources have estimated that, of the 250,000 or more who are eligible to retire under S.2197 as drafted, most would leave. The effect of all these people leaving, and the legal restrictions on their replacement, could shake the foundations of many government agencies and seriously jeopardize their ability to carry out their missions.

We have talked with numerous high level officials in government about the combined impact of the tax reform proposal, which repeals the three year basis recovery rule, and S.2197, which authorizes "early out" retirement. We have been told by every senior level official with whom we have discussed this matter with, that these combined provisions seriously threaten to undermine their agency's capabilities. Some of them have told us that it will take them 5 to 10 years to recover, and some have said longer. I have attached to our testimony an exchange of letters between the Commander of the Headquarters Aeronautical Systems Division at Wright Patterson Air Force Base and the Commander of the Headquarters Air Force Systems Command at Andrews Air Force Base written in March and April of this year. They speak eloquently of the dilemma with which these Commanders are faced as a result of the tax revision and this early out bill. The handwritten note on page 2 of Lt. Gen. Thomas McMullen's 29 March 1986 letter speaks volumes about the seriousness of this situation. His note says:

> "This is a real disaster in the making. I ran a little poll of 62 senior people eligible to retire; 48 (77%) said they would. I have 104 who are eligible; I cannot stand to lose (77% x 104 = 80) GM-14's, 15's and SES's. What's more "Early Out" [S.2197] could really open it up. HELP!"

For your information Mr. Chairman, Lt. Gen Thomas McMullen commands the Aeronautical Systems Division at Wright Patterson Air Force Base, the largest research and development center in the world, and the one responsible for R & D on all major Air Force systems.

The SEA ran its own survey on career executives in January of this year, in the face of the Tax Reform Act provisions in the House bill. 91% of those SES members who responded and who were eligible to retire, said they would do so.

When we were first notified of S.2197, we communicated with the staff of the Senate Governmental Affairs Committee. We told them that we believed S.2197 should be linked together with the Tax Reform Act, and that if the three year basis recovery rule were abolished, heavily penalizing federal employees eligible to retire who stayed in government, then we would support S.2197. Not to do so would be unfair, in that people close to retirement eligibility, but without the requisite age or years of service, would be captive to a substantial increase in taxes without the ability to escape them by leaving government. S.2197 provides the escape hatch for those employees who made their retirement plans on the basis of the three year recovery window. Since the Senate Finance Committee has seen fit to impose this additional multi-billion dollar tax burden on public employees who contribute with tax paid dollars to their own retirement systems, we support S.2197 in order that those affected may leave government. In supporting this bill, we do not for one minute under-estimate the effect it will have on government's ability to operate. In many agencies it will be devastating.

We are also managers and executives who care about the American public, and government's ability to deliver services to that public. The purpose of S.2197 is to reduce agency staffing without substantial trauma, given the need for cutbacks imposed by Gramm-Rudman-Hollings. If the Senate and the House do not impose the punitive tax changes now included in the tax reform proposals, we believe the best method to accomplish the purpose of S.2197 is by giving the authority to each agency head to allow early-out retirement as proposed by this bill. Agency heads should be authorized to utilize the provisions of S.2197 within his or her entire agency, or segments thereof, where the effects of Gramm-Rudman or other cutbacks would necessitate their utilization. Utilization of this authority by an agency head should subject that agency to the staff reductions outlined in the bill, except that when absolutely necessary the agency head should be allowed to make exceptions, so long as the agency budget authority was not violated.

With these modifications, Mr. Chairman, we support S.2197 as an appropriate response to the Senate Finance Committee's and the House of Representatives' imposition of additional taxes on federal employees and retirees. Employees should not be held captive, when to remain in government would subject them to punitive new taxes which would destroy years of retirement planning. If these tax provisions are not enacted, we believe S.2197 should grant the early out authority to agency heads on an as needed basis, to utilize in lieu of necessary RIF's and other cutbacks.

Mr. Chairman, we suggest that Section 6(d) be amended to include reinstatement actions ordered by the Federal Labor Relations Authority, and arbitrators, when operating within their authority, as granted by Title 5 of the U.S. Code and collective bargaining agreements entered into between agencies and labor organizations. These two bodies have authority to order such reinstatements under law, and therefore their reinstatement orders should also negate the loss of a position under Subsection (d).

In addition, in order to ameliorate somewhat the chaos that will result from the government-wide application of S.2197 if enacted, we propose that employees who plan to utilize its provisions be given a six month window to do so. The employee should be required to make an irrevocable commitment to retire during the first three months of the six month period, so that the agency can begin the process of filling the to-be-vacated position by promotion, new hire, etc., as necessary. Many of those leaving will be those in hard to replace categories and some lead time for replacement will be imperative. Agencies should also be given the authority to "double-encumber" positions to be vacated during the last three months of the six month period, so that some training and transition from the experienced to the inexperienced can take place.

Thank you Mr. Chairman for this opportunity to testify. I would be happy to answer any questions you might have.

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AERONAUTICAL SYSTEMS DIVISION (AFSC)
WRIGHT-PATTERSON AIR FORCE BASE, OHIO [illegible]

Office of the Commander

[illegible] MAR 1986

SUBJECT: Civilian Personnel Retirement

TO: AFSC/

1. The foundation of ASD is its' people. The combination of highly skilled technical and business personnel with the blend of military experience and civilian continuity has uniquely contributed to what many consider the finest research and acquisition organization in the world. I fear now, however, that the actions of Congress are seriously jeopardizing one of the major ingredients in this success story and I solicit your help in persuading our leadership as to the seriousness of the problem and working with them to avoid a crippling mistake.

2. Since last writing you on this subject, several things have happened to make the situation more acute. First of all, the Senate Finance Committee has reversed itself and added the change in the three-year recovery rule to the tax reform legislation (effective date of 1 Jan 87 vice the House's 1 Jul 86). Secondly, the Senate has included themselves in the legislation, thus effectively eliminating any argument against the rule change based on unequal treatment.

3. These actions in the Senate have escalated the concern in the civilian workforce. One of my senior SES's informed me that he would select optional retirement rather than pay over $25,000 in additional taxes. I find it difficult to argue with his logic.

4. I have sampled the ASD high grade workforce to determine what my losses would be should the rule change go into effect. The results are as follows:

GS/GM 14 and 15, SES
As of 15 Dec 85

Assigned	Eligible to Retire	Normal Annual Retirement Expectation	Expected RTMT with Rule Change
928	142	47	123

Needless to say, the persons eligible to retire are also the most experienced. If the recently introduced "early-out" bill is ever enacted, the sky is the limit.

[illegible]. The continuity and quality of the ASD programs will suffer if we [illegible]t turn this around.

This is a real disaster in the making. I ran a little poll of 62 senior people eligible to retire; 48 (77% said they would. I have 104 who are eligible; I cannot stand to lose (.77×104 = 80) GM 14's, 15's and SES's. What's more "Early Out" could really open it up

HELP!

Tom

THOMAS H. McMULLEN
Lieutenant General, USAF
Commander

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE SYSTEMS COMMAND
ANDREWS AIR FORCE BASE DC 20334-5000

REPLY TO ATTN OF: CC

28 APR 1986

SUBJECT: Civilian Personnel Retirement (Your Ltr, 29 Mar 86)

TO: ASD/CC

1. I understand and appreciate the concerns you expressed in your letter of 29 Mar 86. The statistics you provided certainly portend the magnitude of our problems throughout the Command should the proposed legislation on tax reform and "early-out" come to fruition. Rest assured that I share your concerns and that we are doing all we can to stay on top of the problem here at the Headquarters. As I wrote you earlier, we tread a fine line with regard to expressing our views on proposals which the Administration supports; however, we are taking every opportunity to communicate our concerns up the line.

2. Our sources tell us that congressional hearings on the "early-out" (Roth) bill will probably take place the end of April. We are tracking developments closely and will keep you advised.

Larry

LAWRENCE A. SKANTZE, General, USAF
Commander

FEDERAL EXECUTIVE AND PROFESSIONAL ASSOCIATION
15535 NEW HAMPSHIRE AVENUE • SILVER SPRING, MD 20904 • (301)384-2616

The Federal Executive and Professional Association (FEPA) is pleased to comment on proposed Senate Bill S2197 - To Amend Title 5, United States Code, to establish an optional early retirement program for Federal Government employees, and for other purposes. The proposed legislation would provide an optional early retirement policy for federal government employees. As beguiling and advantageous as this proposal might be for some individuals, we believe that it is fraught with grave dangers and, therefore, oppose its enactment.

Our Association's primary concern with the plan is the potential impact an exodus of senior federal employees would have on the effective functioning of the federal government. We believe the scheme creates an unfortunate seduction of employees who are already disillusioned by the succession of negative steps taken against them and who may grasp at this bait as a way out - notwithstanding what it would do to the career service and to the public welfare.

Specifically, we raise these questions and objections:

1. The real impact in numbers of persons likely to retire is not really understood--either in relation to the total workforce or to the critical skill areas of the service. We recognize the proposed exclusion of firemen, air traffic controllers, and the like, but we do not know the impact on other equally critical professional and technical skill areas. We predict that there will be inherent pressures to extend the plan, not to limit it. An estimate of a 2 to 3% loss of

eligible retirees, is not in our judgment, realistic; we anticipate the percentage and real numbers would be much higher.

2. We also question the need to further reduce the federal workforce. We see little rationale for this action. As the current administration cuts the career workforce, we face explosive requirements for continuing federal efforts in such areas as narcotics and crime control, terrorist deterrents, food and product inspection, environmental hazards, tax collections, and numerous programs involving health, science, and technology, to name only a sample. Any further reduction of civilian personnel would seriously jeopardize government missions still mandated by law. Whenever reductions in government activities are willed by political leaders, they should be forthrightly executed by cutting or eliminating programs themselves (by legislation where necessary, and attendant early-outs and reassignments as required,) not by crippling functions in hit-or-miss fashion while pretending that the programs are continuing according to law.

3. Whatever their field of work, the most experienced and needed workers are precisely those who will be tempted to leave under this proposed legislation. Most of the people who will opt for retirement are the very ones we cannot afford to lose. The conditions of age and service involved in retirement make this the most hazardous kind of attrition to gamble on -- hazardous to the public service and, therefore, to the American public.

4. Any approach of "encouraged attrition" on a random or shotgun basis, is chancy and seldom works out as expected. Staff is cut disproportionately and in the wrong places, and without regard to the maintenance of essential services. Some vital functions could be crippled to an extent not envisaged at the outset. Employee retirement eligibility and susceptibility to the advantages offered in this bill are not dis-

tributed proportionately among all occupations and programs. It is also our judgment that those who will take advantage of this opportunity are the highly educated senior professionals and middle managers who feel most repelled by personnel actions of recent years and who can most readily find other employment. These are precisely the men and women who constitute the backbone of the service. They should be given incentives to stay, not to leave.

The ultimate test of any personnel legislation should be its long-term effect on performance of public services. The FEPA time and again has urged the Congress and the President to take legislative initiatives that are part of a comprehensive revision of the civil service system--based on a careful survey of needs and their interrelationships. Bills on isolated subjects will not achieve that. Our recommended approach is to conduct a thorough review of the entire personnel management environment of the federal service, collecting the necessary data, analyzing the impacts, and then proposing a comprehensive plan to address all the issues -- in effect, a re-reform of the civil service.

In keeping with this approach, the FEPA has had a committee review the spectrum of personnel issues and develop a number of them in the form of factual questions to which answers are necessary before decisions on management of the workforce can be objectively arrived at. Since these were recently submitted to certain members of Congress, we are attaching a copy of them to this testimony. We recommend that prior to further work on S. 2197, you review these issues and at least pursue those, of which there are a number, that are highly relevant to the subject of this bill.

In conclusion, we must state that we believe that action envisaged by this bill is not necessary and could have significant negative impacts on the effectiveness of the government service. In any event, if you continue to pursue action along these lines, we strongly urge that you at least assemble the data pertinent to retirement and potential retirees in our list submitted.

Thank you for the opportunity to testify.

Attachment

1. How many jobs, from January 1981 through the end of the last fiscal or calendar year, have been removed throughout the government from career-type appointments and placed in Schedules A, B or C or in SES non-career posts?

2. How many new jobs have been placed in these categories during the same period, whether by statute, executive order, action of OPM, or agency action?

3. How many transfers of incumbents have been made from Schedules A, B, or C or from SES non-career jobs into career-type jobs during the past two fiscal or calendar years?

4. For the so-called competitive service (or what the law designates should be the competitive service), for the last two fiscal or calendar years:

    a. How many applicants were there?

    b. How many of those were hired?

    c. How many of the hires were made from eligible lists of candidates established by competitive examination, that is, by written tests, oral tests, or ranking of qualification-reviews by experienced impartial examiners or some combination of these methods?

    d. Break down the answers to the above into four categories:
        - for trades and labor jobs subject to hourly wages;
        - for jobs below GS-5;*
        - for jobs GS-5 through 14;
        - for jobs GS-15 and above.

    e. For how many of these appointments were "full field" investigations made by the Investigations Staff? For how many were "records checks" made? (This should exclude security investigations).

    f. How many referrals to agencies (by numbers of candidates) were made by OPM or its boards of examiners from competitive registers?

    g. How many appointments were made in agencies from registers that were formed from competitive examinations conducted by those agencies?
        - describe in detail how OPM audits and assures the application of merit procedures in these agency examinations?
        - what proportion do these agency appointments represent of the total appointments to the federal service?

5. Relating to college-level entry (GS-5 through 9) to jobs in professional and administrative occupations (those formerly filled by PACE):

    a. How many were filled during the past two fiscal or calendar years?

    b. How many of these were from competitive registers established as stated in 4c above?

    c. What work is under way, if any, to replace the PACE process? When will such replacement take place?

*(Term GS also includes all GM employees throughout.)

6. How many people subject to the current Civil Service Retirement System are currently eligible by age and service combination to retire? What proportion is this figure of the total covered by the system?

7. What is the distribution of retirements by age for the last fiscal or calendar year? What was it in fiscal or calendar year 1980? How many of those eligible for retirement by age group have retired as soon as becoming eligible from 1980 to present? (state as a percent of total eligible to retire e.g., 55 years/30 years' service - 96% retired in 1984.)

8. What is current ratio of Federal employees to population? (exclude postal workers and U.S. military personnel; in 1925, '35, '45, '55, '65, '75, '80).

9. What is the total number of non-career employees (SES and GM/GS employees) at the present time? What was it on June 1, 1984, '83, '82, '81, '80?

10. What is the total number (as a percent of total Federal workforce) of GS-12 through 15's for the past 10 years, e.g., 1975 through 1985 by year.

11. Identify the number of scientific and technical positions as a percent of the total Civil Service workforce from 1975 to 1985.

12. Identify those positions which are currently shortage or critical positions that can't be readily filled. Identify by category and number of vacants related to full complement requirements.

13. Provide (for the last 10 years) the turnover rate for scientific and technical positions (length of time in position before person leaves), and if possible, if incumbents depart Federal service.

14. What data are available to document that employees who have had career development training are matched to progressively higher responsibility positions?

15. What has the OPM done to guarantee an objective employee appeal system, equal employment protection and protection of 1st level supervisory responsibilities for the rating of employee under the new OPM performance evaluation regulations?

16. Explain OPM's program for fostering a career merit Civil Service.

17. What is the current status of OPM's role in developing classification standards? How many classification standards have not been revised in the last six years? Please list.

18. Provide, if possible, the number of persons, as a percent, under merit pay (approximately 330,000) who have received no (less than $300). appreciable merit pay (not awards) because of pay caps, and topping out at top steps of grade salary scales.

19. Please identify by Department and Agency those new offices, and or existing offices headed by political appointees or persons appointed non competitively by political appointees and describe their organization, and identify those positions and their grade levels that have been added, or created with the creation of a new office since 1980. FEPA is concerned that a double standard exists whereby Federal programs and career employees are eliminated while simultaneously, an explosion of political appointees such as deputies, special assistants and related staffs in the political and policy areas are being dramatically increased.

20. What steps and/or programs is the OPM taking to assure Federal employees that their work is meaningful and they are productive and interactive parts of the management process?

21. What actions does OPM plan to take to republish a new regulation on Employee organizations. (similar to the old chapter 252 of the FPM?)

22. Why hasn't OPM undertaken a communications.process to reinstitute the Federal Employees Pay Council? It used to meet annually to advise OPM on compensation for input into pay agents' report. Comprised of unions, employee groups, etc. It hasn't met for 5 or 6 years.

23. Please furnish an analysis by Department and Agency of the number of less than full time permanent employees, temporary employees, consultants and experts for the last six years, i.e., 1978-1985.

24. Identify the number of persons in these categories who are currently holding supervisory or management positions having management or supervisory responsibilities over full time permanent U.S. employees.

25. What statistical programs and information does the OPM currently maintain and which ones are available to the public, e.g., retirement statistics, actuarial data?

26. What specific plans, programs, procedures does the OPM now have in place to assure Departments and Agencies are administering the major components of Federal personnel systems, e.g., merit pay, merit selections, adherence to FPRs regarding performance evaluations, labor management relations, etc. (Please list)

27. IS OPM aware of the handoff game that goes on between Agency IG's, who review Agency employee complaints and in many cases, refer the complaint to the Office of Special Counsel, as a proscribed personnel practice out of their area of jurisdiction, while the OSC then refuses to review the allegations - claiming the matter is not within their scope and either closes the case, or refers it to the FLRB - claiming it's a labor/management problem? The end result is that employees are denied their due process by bureaucratic pass the "buck actions." We would like to know - by Agency - how many complaints made to IG's are referred to the Office of Special Counsel or other review authorities, and the number of these complaints that receive no action, or are not investigated by the receiving Agency.

28. What is OPM doing to establish programs to help Federal employees interpret conflicting and/or confusing Federal personnel regulations? Employees have no place to go to interpret the many regulations that control their personnel environment. An authoritative interpretation service is badly needed.

PMA

PROFESSIONAL MANAGERS ASSOCIATION

STATEMENT OF
PROFESSIONAL MANAGERS ASSOCIATION

Before the
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

May 15, 1986

Presented by
Helene A. Benson
Secretary of PMA Board of Directors
and Chair of PMA Retirement Committee

Mr. Chairman and members of the Committee, thank you for the opportunity to present the views of the Professional Managers Association (PMA) on the early retirement opportunity proposed in S.2197.

The subject of retirement is of keen interest to our members who are Federal mid-level managers, primarily in grades 13-15.

PMA supports offering Federal employees an opportunity to retire early. We believe offering employees a voluntary early retirement opportunity is a humane alternative to major reductions in force (RIF's) under which employees' employment with the Federal Government would be involuntarily terminated. Enlightened private-sector employers, when faced with the necessity of reducing their work forces, commonly offer employees an opportunity to leave with retirement benefits not normally available to them. These plans are called "open window," "early retirement windows," "early retirement incentive plans," etc., and they have become quite popular in the last few years.

PMA supports the age and service requirements specified in S.2197 -- immediate retirement to anyone with 25 years' service regardless of age, at age 50 with 20 years' service, at age 55 with 15 years' service, and age 57 with 5 years' service.

The opportunity offered in S.2197 for early retirement is coupled with a penalty of 2 percent reduction in benefits for each year the employee is under age 55. On this point we note that private-sector "early retirement window" plans commonly offer special additional incentives, beyond liberalization of the age and service requirements, in order to encourage employees to retire early. One such special incentive is elimination of the reduction in pension benefits because of age. Some other incentives common in the private-sector are otherwise improving pension benefits, cash payments, additional benefits as a subsidy for reduced Social Security benefits, and improved medical coverage.

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FMA is not necessarily recommending at this time eliminating S.2197's penalty for each year an employee is under age 55. However, we do recommend that the possibility of waiving the reduction be studied. We also recommend that present law be amended to eliminate the reduction for those employees who are involuntarily retired. It is FMA's view that waiving the reduction for those employees is eminently fair because their retirement income is smaller than they anticipated solely because of action taken by the Government.

The Hewitt Associates 1986 study of private-sector plans, Plan Design and Experience in Early Retirement Windows and in Other Voluntary Separation Plans, shows that 36 percent of employees who were offered early retirement windows accepted. However, 64 percent of the plans in the study offered an improved pension benefit, such as elimination of the early retirement reduction. Almost all offered some additional incentive beyond liberalized age and service requirements.

FMA believes that the number of employees ultimately willing to take advantage of the early retirement opportunity offered by S.2197 may be smaller than anticipated without additional incentives. Among the chilling effects on a Federal employee's decision to retire early are the 1983 amendment to the Social Security law which reduces the amount of Social Security benefits that can be earned by retired Federal employees eligible for benefits after 1985 and employees' anxiety concerning cost of living adjustments in retirement benefits. Furthermore, because the bill offers no incentives beyond liberalized age and service requirements, this bill will not have the effect of encouraging those already eligible to retire to do so.

Thank you for the opportunity to testify on S.2197. FMA will be happy to assist you and your staff in developing an early retirement open window plan for Federal employees.

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES
Affiliated with AFL-CIO
80 F Street, N.W., Washington, D.C. 20001

STATEMENT BY

KENNETH T. BLAYLOCK
NATIONAL PRESIDENT
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES
(AFL-CIO)

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

REGARDING

"FEDERAL EMPLOYEES' OPTIONAL EARLY RETIREMENT ACT OF 1986"
S.2197

ON

MAY 15, 1986

My name is Kenneth T. Blaylock. I am the National President of the American Federation of Government Employees (AFL-CIO). On behalf of the 700,000 employees we represent, I appreciate the opportunity to testify before this Committee on S. 2197.

S.2197, introduced by Chairman Roth, would provide for a six month "window" from July 1, 1986, to December 31, 1986, during which federal employees would be eligible for early-out retirement. To be eligible for such an early-out retirement, the employee would be required to meet any of the following standards:

o Have 25 years of federal service;

o Be age 50 with a minimum of 20 years of federal service;

o Be age 55 with a minimum of 15 years of federal service; or

o Be age 57 with a minimum of 5 years of federal service.

Any employee age 55 or older meeting the standards and opting for such early-out retirement would receive his or her full benefit, while an employee under age 55 would have his or her benefit reduced by two percent for each year. Under current language, it appears 6(c), hazardous duty retirement, would also be reduced. This clearly was unintended and needs to be corrected.

Exempted from the bill would be non-supervisory law enforcement agents, air traffic controllers, firefighters, physicians, nurses, Members of Congress, and the Judicial Branch. Although these exemptions may make sense for positions covered by 6(c), "hazardous duty" retirement, we fail to see the need to restrict nurses and physicians if all other federal jobs are included. Although these jobs clearly are essential and important, we don't think they are any more important (for example) than engineers working for NASA or meat and poultry inspectors in the Department of Agriculture. If the jobs are not important, then we should not have them in the first place.

The key to the bill is the restrictions placed upon the agencies, barring them from replacing these employees for a five year period. Executive agencies would be legally forbidden to hire employees unless such hiring would not exceed the number of employees employed as of July 1, 1986, minus the number of employees who retire during the window period. The reduced employment levels would include both normal retirees and those who are taking advantage of the early-out window. In addition, the reduced employment level would be based on actual retirement and eliminate unfilled vacancies. In effect, this is a non-planned, unmanaged, legislatively reduced manpower ceiling which no company in the private sector would think about using. At the minimum, we would suggest that the reduced employment levels should only reflect the early-out retirements and include existing vacancies.

OPM can waive such restrictions for essential services and for employees who are financed through user fees. It is important to note that this would give OPM broad powers in deciding which agencies will have an adequate work force and which will not.

There is weak language in the bill to discourage contracting out to meet the personnel needs generated by the increased retirement.

Because the window falls just prior to the proposed elimination of the "rule of three" in the Tax Reform Bill now being considered by the Senate, the percentage of eligible employees who take advantage of the bill's provision can safely be predicted as being very high.

This bill can be seen as predicated on two basic premises--one of which we fully concur, and the other which we find very troublesome. The implied premises of the legislation are:

1. Early-out retirement is preferable to RIFs in reducing federal employment and the federal payroll; and
2. Federal employment can be reduced by 250,000 to 350,000 without severely disrupting the functioning of government programs and the provision of government services.

We fully concur with the first premise, but are troubled by the second.

AFGE is pleased to see the Chair recognize the counterproductive nature of RIFs. As has been often shown by GAO reports and other personnel experts, RIFs are extremely costly. Once the administrative costs of running the RIF, severance pay, accumulated leave, and agency disruption costs are added up, the anticipated payroll savings dwindle to nothing. In addition, the disproportionate burden borne by women and minorities has been amply documented by the Government Service Task Force.

If it is anticipated that because of Gramm-Rudman-Hollings and the resultant FY 1987 budget, major program eliminations, scalebacks, and/or reductions are inevitable, and if there would be accompanying reductions in personnel, clearly, S.2197 would be the preferred procedure for effectuating these personnel reductions.

However, if the premise is that the federal government can reduce personnel by 10 to 15 percent without reducing the role of government commensurately, the bill is greatly flawed. Over the past decade, salary and expense accounts and administrative budgets have been drastically squeezed throughout the federal government. As I travel this country speaking to locals, I hear a repeating theme: "We used to do this job thoroughly and correctly. Now, with the reduced personnel (or additional workload), we just make do."

There is a false view in the body politic that the federal "bureaucracy" has grown enormously in the past two decades. This is simply false. Compared to any other relevant aspect of the United States (and recognizing the growing complexity of government), the federal work force is doing more with less. Consider:

- o Since 1960, the federal work force has declined in relation to the country's population.
- o Since 1960, the federal work force has declined in relation to the civilian work force.
- o Since 1960, the federal work force has declined in relation to state and local government work force.

Even in Defense, where civilian employment has increased by about 18 percent since 1980, it has grown at a much slower rate than the real growth in Defense spending.

The Administration's FY 1987 budget request proposed eliminating scores of government programs, privatizing others, and turning other programs over to the state and local government. Even with these drastic proposals, they estimated they could only reduce civilian agency employment net of DOD and the Postal Service by 23,452. Any proposal to cut personnel by ten times that amount must assume program reductions much more severe than that envisioned by the President's budget.

You simply cannot expect to do away with the work force and believe the programs will remain standing.

Connected with this concern is that the dramatically reduced personnel ceilings will force agencies to substitute the contracted-out work force for federal employees. Currently, government managers operate under two broad constraints--a budget ceiling and a personnel ceiling. If these managers run up against the personnel ceiling prior to the budget ceiling, they will be inevitably forced to expand contracting-out to get the work done. This expansion of the contract work force will occur independent of any relevant cost savings. We have attached a technical appendix which brings home these points in a more theoretical fashion.

Given these concerns, the language contained in Section 6(g) is inadequate. If federal payroll is to be reduced and not merely shifted (and likely increased) to contract workers, an absolute ceiling on contracts for personnel services must be included in the legislation.

In conclusion, the American Federation of Government Employees supports this legislation with three important caveats:

1. The bill must contain language to clearly and absolutely halt the growth of contracting-out which would occur as a result of the lowered personnel ceilings. We would recommend the following language:

   > "Notwithstanding any law or other authority, no funds shall be expended, obligated or made available by or to any agency for the procurement of personal services, by contract, for the performance of functions no longer performed by any employees because of the enactment of this section."

2. There should be a concomitant decrease in government programs and work load if this legislation is to not render major programs dysfunctional.

3. If this provision is to be offered to all federal employees, the exception for nurses and physicians should not be included.

Thank you.

STATEMENT BY

THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES

BEFORE

THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

ON

S. 2197

A BILL TO ESTABLISH AN OPTIONAL EARLY RETIREMENT PROGRAM

FOR FEDERAL EMPLOYEES

Mr. Chairman and Committee Members:

I am pleased to appear before the Committee to testify on legislation that would temporarily expand the opportunity for Federal employees to retire early. The National Federation of Federal Employees has long held the view that early retirement is an essential option in the Federal Government's retirement system as well as in its reduction-in-force actions. We are therefore extremely pleased that the Chairman has recognized its importance by liberalizing the retirement age and service requirements beginning on July 1, 1986 and ending on December 31, 1986. In light of the five-year attack on Federal employee pay and benefits, a large proportion of the workforce is more than ready to take advantage of the opportunity you're offering.

S. 2197 would be acceptable if it merely expanded the early retirement option for Federal employees. But, unfortunately, it goes further. The bill would also prevent agencies from replacing workers who retire during the six month window. The restriction, which lasts until 1991, represents an attempt to slash Federal personnel levels by an unprecedented amount. Over 400,000 employees are already eligible to retire under the liberalized requirements.

By preventing agencies from replacing these workers, S. 2197 would seriously jeopardize the Government's ability to both serve and protect the public. Not only would the bill result in the loss of experienced and qualified employees, it would set back agency operations by preventing the hiring of new workers. The replacement restriction is a meat-axe approach to government, without regard to priorities or public policy, and it would only open a pandora's box of problems. It has serious consequences for agencies and their employees, private citizens and the business community which relies on many Federal services. I therefore urge the Committee to delete the restriction from the bill.

The policy of allowing employees to retire before they meet the normal age and service requirements is not a new one. Currently, an agency facing a reduction-in-force, major reorganization or transfer in function may request permission from the Office of Personnel Management to grant the so-called `early out' authority. Once the request is approved, employees who have accumulated 25 years of service at any age, or who are age 50 and above with 20 years of service, may retire. The option enables the agency to deal with personnel cuts in a more humane manner by reducing the number of employees who must be separated. But the benefit has its drawbacks. Employees who choose to retire early can suffer a substantial penalty. Their annuities are reduced by 2 percent for each year they retire under age 55. Nonetheless, early retirement still offers the best solution to personnel cutbacks.

The NFFE believes so firmly in the early out authority that we would like to see it become an automatic response to a RIF or reorganization instead of being subject to OPM's approval. We also feel the option should be available to all Federal employees who meet the eligibility requirements. While S. 2197 would not cover employees who have mandatory retirement at an early age, it also excludes nurses and physicians. These employees work in agencies which have been and could again be threatened with budget cuts. They should also be given the same option to retire early.

It is not surprising, Mr. Chairman, that your bill has generated so much interest among Federal workers. The oppportunity to leave the Federal service is becoming, regrettably, an extremely attractive one. Over the past five years, Federal employees have faced continual criticism and never-ending attempts to cut their benefits, and many of them are just plain fed up. Beginning in 1981, the Administration has recommended increasing the retirement contribution to 11 percent with an actual decrease in benefits; a voucher health insurance plan which would require employees to pay more out-of-pocket expenses; and pay cuts, caps and freezes which have dropped salaries to almost 20 percent below the private sector. Add to this list actual cuts in cost-of-living adjustments, proposed cuts to annual and sick leave, downgradings, holiday furloughs and increased contracting out. The final straw is the possible change in the taxation of annuities.

I can't remember the last time Federal employees were offered a benefit. I was therefore encouraged when the Chairman introduced legislation to let these employees retire early. But my enthusiasm for the bill is tempered by a provision I believe would be disastrous for the Government, the public and those employees who cannot or chose not to retire. I am referring to the prohibition on replacing workers who leave during the six month window. The restriction goes far beyond a hiring freeze, and has the potential to disrupt agency operations, further erode morale and actually increase Government costs.

Despite their popularity, hiring freezes are an ineffective way to reduce personnel levels. Because they are based on arbitrary employment goals and not agency missions, they merely create disruption. You only need to look at their history to bear this out. Over the past nine years, four across-the-board freezes have been placed on Executive branch agencies. All of them were instituted for the same purpose as that stated in S. 2197: to reduce civilian payroll costs through personnel reductions. But according to the General Accounting Office, these freezes did more harm than good. In a 1982 report, the agency noted "because they ignored individual agencies' missions, workload, and staffing requirements, these freezes disrupted agency operations, and in some cases, increased costs to the Government." ("Recent Government-Wide Hiring Freezes Prove Ineffective In Managing Federal Employment" FPCD-82-21. March 10, 1982.)

The findings of the GAO report are a warning to be heeded by anyone concerned with the integrity of the Federal Government. The agency determined that oversight of Federal programs was decreased, recruitment efforts were hampered and agency programs suffered significant setbacks. The reduced oversight itself resulted in additional problems. For example, the Inspector General's office for several agencies was unable to fulfill its responsibility to promote economy and efficiency and prevent fraud and abuse. Agencies unable to hire the necessary oversight personnel were therefore unable to maintain the quality and or cost-efficiency of their work.

The GAO also found inefficient use of staff. Because attrition rates are higher for clericals, agencies found their administrative functions understaffed. To make up for these shortages, higher-graded employees were required to assume the backlog. Agencies were thus paying GS-11s and GS-12s for clerical work. The implications were more serious for health agencies. During one of the Carter Administration freezes, a Veterans Administration Medical Center was hampered in the administration of medical care. According to the GAO, the loss of clericals seriously affected the logistical support for direct patient care. It is highly likely that more serious problems would occur under the five-year freeze required by S. 2197.

The hiring freeze could also have a negative impact on the economy. Revenues would not be collected and services that assist the business community would be curtailed. The six-month freeze in 1981 caused the U.S. Treasury a loss of $234 million in uncollected revenues. A five-year freeze would be even more expensive. Additionally, Federal debt collection efforts by the Farmers Home Administration, the Small Business Administration and the Veterans Administration when these agencies were unable to process loan delinquencies fast enough. This simply reduced revenues further. Private sector business also suffered because of the hiring restriction. For example, small businesses waited longer for loans from the SBA and home-buyers experienced long delays in receiving loans from the VA.

Delayed service to the public and to the business community is not the only problem the five-year hiring restriction would create. The nation's ability to defend itself could also be compromised. Almost one-half of all civilian personnel are employed by the Department of Defense. Their jobs range from the maintenance of sophisticated aircraft and military equipment to the supply of ammunition and as such are vital to the country's defense. Many of these civilians have accumulated enough service to retire under the expanded `early out' authority provided under S. 2197. And, from the indications we have received from our members, about 50 to 60 percent of those eligible will leave.

For example, NFFE Local 15 represents Federal employees at the Army installation on Rock Island, IL. These workers are responsible for the procurement of conventional ammunition for the entire U.S. military and its allies. They also teach the military how to maintain equipment, carry out quality assurance, and monitor multi-billion dollar defense contracts. Of the 9,000 civlian employees, 22 percent would be eligible to retire. Although the area has, at 12 percent, one of the highest unemployment rates in the nation, the installation believes almost 60 percent of its employees would retire.

The severe reduction in personnel levels for this and other agencies leaves an important question unanswered. How will agencies cope with their workloads? There are several options. Managers could increase overtime, increase contracting out or simply not do the work. The NFFE does not believe that any of the options are acceptable. Yet experience has shown that agencies will be forced to resort to these costly measures.

Increased contracting out under the hiring freezes poses the greatest threat to the future of the Federal Government. Even though the bill specifies that appropriate action should be taken to ensure there is no additional contracting out, it also carries an exclusion where it is to the "financial advantage of the Federal Government". Agencies cannot even perform the necessary cost comparisons under the best of circumstances. With the reduced oversight and personnel, they would certainly be unable to monitor the quality or cost efficiency of a contract. In fact, we believe these problems would be exacerbated under S. 2197.

Allowing OPM to grant a waiver to the hiring restriction is also an unsatisfactory solution which has failed to work in the past. When OMB was given this authority during the last four hiring freezes, they failed to respond to agency needs. For example, when the Department of Health, Education and Welfare sought an exemption from the 1977 freeze for positions dealing directly with patient care activities of the Public Health Service; management and operation of programs designed to prevent, detect and prosecute fraud and waste; and health cost containment, they were turned down. OMB denied the request solely because " it would jeopardize reaching the President's [hiring freeze] goals within his time frame". (GAO Report, FPCD-82-21)

Finally, I find it highly unusual to place such responsibility in the hands of the Office of Personnel Management instead of the OMB. The personnel agency does not have the expertise to determine whether or not an agency has the manpower to accomplish its mission. Neither does it have the authority.

In concluding my remarks, Mr. Chairman, I would like to reiterate my support for the 'early out' option you propose to give Federal employees who want to retire. Current budget and personnel policies have already forced many of these qualified workers to leave without regard to their pension. And it is unfortunate that the Administration is unlikely to offer a better future for them. Based on the response the NFFE has received from our membership, it is my belief that well over 60 percent of those eligible will retire early. Our support for your legislation is, however, qualified. We cannot in good conscience accept the drastic personnel reduction intended by your bill. S. 2197 goes far beyond a hiring freeze. In fact, it represents an ice-age for the public service in which the Nation's priorities would be determined by arbitrary personnel levels. I urge the Committee to delete the drastic hiring restrictions contained in this legislation.

That concludes my statement, and I will be happy to answer any questions.

NTEU
The National Treasury Employees Union

STATEMENT OF

ROBERT M. TOBIAS
NATIONAL PRESIDENT
NATIONAL TREASURY EMPLOYEES UNION

TO THE

COMMITTEE ON GOVERNMENTAL AFFAIRS

THE HONORABLE WILLIAM ROTH, JR.
CHAIRMAN

ON

THE FEDERAL EMPLOYEES OPTIONAL
EARLY RETIREMENT ACT OF 1986

UNITED STATES SENATE
WASHINGTON, D.C.

May 15, 1986

1730 K Street, N.W. • Suite 1101 • Washington, D.C. 20006 • (202) 785-4411

Mr. Chairman and Members of the Subcommittee:

I am Robert M. Tobias, President of the National Treasury Employees Union. I appreciate this opportunity to express our union's views on S.2197, the Federal Employees Optional Early Retirement Act of 1986.

The early retirement option is an important and popular benefit for Federal employees who meet eligibility requirements for early retirement and are financially able to retire with a reduced annuity. NTEU has long encouraged the use of early out retirement programs as a humane and viable alternative to reduction-in-force as a means of achieving staff reductions.

This policy has become increasingly popular in the private sector where a number of large firms have offered early retirement programs, sometimes in conjunction with other incentives, to avert or minimize anticipated layoffs. We believe that the availability of early retirement from the Federal service would soften the blow of Gramm-Rudman Hollings budget cuts in several Agencies, and we support the provision in S.2197 to make this option available to Federal employees who wish to retire.

S.2197 authorizes a one-time, government-wide early retirement program intended to accelerate attrition rates and facilitate a reduction in employment levels throughout the Federal government. During the six-month period from

July 1, 1986 to January 1, 1987, early retirement would be available to virtually all Federal employees who have completed 25 years of service; are 50 years of age and have completed 20 years of service; are 55 and have completed 15 years service; and those who are 57 and have completed 5 years of service. For employees under age 55, the bill imposes a 2% reduction in basic annuity for each year an employee is under age 55 at the time of retirement.

Needless to say, Mr. Chairman, the the provisions of S.2197 which make early retirement available government-wide have been very warmly received by many of our members who would be eligible and financially able to take advantage of the program. A government-wide early retirement program would remove the "golden handcuffs" from thousands of Federal workers who wish to leave the Government but do not yet meet the basic eligibility requirements for retirement. Wide availability of early retirement would undoubtedly ease the impact of staff reductions which some Agencies will experience as a result of the Gramm-Rudman-Hollings Budget Act, and expand promotion opportunities. NTEU supports the extension of these important benefits of early retirement to Federal employees government-wide.

We have reservations, however, about the imposition of a 2% reduction in basic annuity for each year an employee is under age 55 at retirement. This penalty for early retirement generally permits employees at the upper end of the grade scale and those who are highly qualified for private sector employment to leave, but precludes early retirement for many low and middle income employees who cannot afford to retire on a significantly reduced annuity. For example, an employee 52 years of age, with 27 years of service and a high 3 year average salary of $25,000 will have earned $12,562 in basic annual annuity income, $1500 less than the $14,062 in annuity income he would receive by retiring at age 55. If an employee chooses to retire at age 52 during the window period for early retirement, the added penalty for retirement under age 55 would reduce his annual annuity by another 6% to $11,062, a loss of $3,000 in annuity income each year. The result of this added penalty is to effectively eliminate the option of early retirement for many lower and middle income workers. In view of the fact that the computation used for determining the basic annuity has a built-in penalty for fewer years of service, we recommend that the Committee eliminate the additional 2% penalty for retirement before age 55.

In addition, we believe that the present Federal policy concerning early retirement is in need of review and improvement. S.2197 provides for a one-time exception to the existing criteria for early retirement programs, but it does not address the need for change in the policy itself. If the Federal government is to avoid the cost and disruption of reductions-in-force as it responds to program changes and budget reductions in the future, Federal Agencies must make greater use of programs such as early retirement to increase attrition and avoid layoffs. The current Federal policy, which provides that an Agency may request early out authority, and OPM may permit it, only when the Agency is undergoing a major reduction-in-force or reorganization in which a large percentage of employees will be subjected to involuntary separation or an immediate reduction in pay, is unnecessarily restrictive. A Federal Agency should be able to obtain authority to offer early retirement to minimize the impact of any RIF or reorganization which may result in involuntary separations, reduced pay, or involuntary relocations outside the commuting area. Such a policy would give Agencies greater flexibility with which to minimize the adverse impact of staff reductions, reorganizations and consolidation of offices on morale, productivity, and efficiency of Agency operations.

I would like to turn now to those provisions of S.2197 which are designed to reduce staffing levels throughout the Federal government. This legislation provides that employment levels in each Federal department, corporation or independent Agency must be reduced by the full-time equivalent of the number of employees who retire during the early retirement window period. A five-year ceiling is imposed at these reduced employment levels through 1991. Employees may be transferred within the Agency to fill vacated positions, and Agencies may increase contracting out of government services when "it is to the financial advantage of the government." In addition, OPM is given authority to grant exceptions to staff ceilings it if determines that a position or class of positions is essential to the performance of an Agency mission, or that the entire cost of the position is covered by user fees.

NTEU adamantly opposes the imposition of an arbitrary staff reduction and five-year employment ceiling on every Federal Agency. This meat-ax approach to reducing Federal civilian employment irrespective of the needs of individual Agencies will lead to confusion and chaos in those Agencies which must maintain or increase staffing levels in order to accomplish their mission as authorized by Congress.

About 500,000 employees, representing 18% of the Federal workforce, are eligible for early retirement under the provisions of S.2197. Several unique factors, including the Gramm-Rudman-Hollings Budget Act, proposed changes in the taxation of Federal annuities, uncertainty about the future of Federal retirement, dwindling pay, and increasing disillusionment with Federal employment, are working together to make departure from the Federal government a very attractive proposition. It is impossible to predict accurately how many eligible employees will retire in a given Agency, but the numbers could be substantial, particularly in occupations for which there is great demand, and higher pay, in the private sector.

We can find no reasonable rationale whatsoever for establishing and enforcing a reduced Agency employment ceiling based on the number of people who elect to retire during the window period. For Agencies which are now operating with inadequate staffing to carry out the workload, a reduction in staff, transfers to fill empty positions, and a five-year employment ceiling will needlessly make a bad situation worse. Consider for a moment the impact of any significant staff reductions on two revenue producing Agencies represented by NTEU, the Internal Revenue Service and the U.S. Customs Service.

The Internal Revenue Service is still trying to rebound from the 1985 tax filing season, in which inadequate staffing contributed to the greatest tax processing fiasco that taxpayers have ever endured. For 1986, staff resources for Returns Processing have been increased, and the Administration is seeking to increase the number of positions in the IRS Examinations Division by 2,500 positions in 1987, 1988, and 1989, in order to increase revenue by $10 billion in FY 1987 through FY 1991. In the IRS, the addition of staff and resources is a sound investment: each additional dollar spent on new positions in Examinations returns $18 to the Treasury, and each additional dollar spent in Collections brings in $19 of revenue. Without question, a staff reduction and five-year employment ceiling in IRS would cost the government millions of dollars in lost revenue.

The Customs Service is responsible for protecting our borders and stemming the flow of drugs and illegal imports into the United States. Customs collected $15 billion in revenue in 1985, and according to the Congressional Budget Office, each additional dollar spent on staff returns $15 in revenue. An arbitrary reduction in staff resources for the Customs Service would inevitably impair the Agency's ability to perform its mission and reduce Federal revenues.

S. 2197 attempts to a address the problem of inappropriate staff reductions by providing that OPM can authorize exceptions to employment ceilings when a position or class of positions is essential to the performance of an Agency mission. This process for waiving the five-year employment ceiling falls far short of correcting the problems flowing from the government-wide ceiling. In those Agencies which need to maintain or even increase current employment levels in order to effectively carry out the Agency workload, staff reductions will nonetheless occur during the window period, and hiring will be delayed until OPM has an opportunity to assess the need for employees and approve a waiver request. Attrition during the window period may well occur unevenly, skewing the distribution of staff resources inappropriately. In many instances, Agencies would be forced to implement transfers, and involuntary relocations, in order to fill critical positions which have been vacated during the six-month window period. In short, a costly and disruptive process will be imposed on every Agency before a restoration or needed staff could be initiated.

In addition, we believe that the new FTE enforcement role which this legislation creates for OPM is fundamentally flawed for several reasons. First, the waiver review process makes OPM responsible for assessment of Agency staffing requirements and its use of resources to accomplish its mission--management determinations which are now properly the responsibility of the Agency. In those Agencies which must maintain or increase existing staff resources, every hiring decision which exceeds the artificially low "employment ceiling" will be subject to OPM review and approval. This new layer of bureaucracy will seriously restrict the flexibility of Agency managers to effectively manage workloads and resources.

Second, OPM will need additional resources and expertise in order to effectively carry out its responsibility for policing FTE levels in every Agency and reviewing requests for increased staff, and the review process may be time-consuming. In fact, this review process will require a commitment of time and resources from both OPM and those Agencies which must apply for waivers. Depending on the number of waiver requests submitted, the review and approval process could prove to be slow and burdensome.

Finally, the ability of Federal Agencies to respond to the will of Congress may be impaired by this division of responsibility for setting employment levels. If, for example, Congress directs the U.S. Customs Service to carry out a new drug interdiction program and OPM does not permit the addition of positions in excess of the Customs employment ceiling, the intent of Congress may be thwarted. In turn, Congress may be provoked to impose staffing plans of its own by statute, further restricting the Agency's flexibility.

NTEU cannot support the provisions of S.2197 which hamstring Federal Agencies with an arbitrary five-year plan for achieving staff reductions in the Federal Government. Clearly, the decision to reduce staff, or to increase employment when additional resources are needed to perform an Agency mission, must be made on an Agency by Agency basis and be subject to periodic revision. It serves no useful purpose to impose a rigid five-year ceiling on all Executive Agencies, and then create an unwieldy, bureaucratic procedure for granting exceptions to the ceiling on a piecemeal basis. We urge the Committee to amend S. 2197 to remove the provisions of Section 6 which establish a five-year employment ceiling and OPM waiver procedure from the bill.

This concludes my statement. I would be happy to answer any questions you might have.

CO/prw/0267L

NATIONAL ASSOCIATION OF LETTER CARRIERS
AFL-CIO

VINCENT R. SOMBROTTO
PRESIDENT

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TESTIMONY OF

VINCENT R. SOMBROTTO, PRESIDENT
NATIONAL ASSOCIATION OF LETTER CARRIERS

before the

SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

concerning

S. 2197, THE FEDERAL EMPLOYEES' OPTIONAL EARLY RETIREMENT ACT OF 1986

May 15, 1986

CONGRESSIONAL TESTIMONY

MR. CHAIRMAN. THANK YOU FOR ASKING THE NATIONAL ASSOCIATION OF LETTER CARRIERS TO TESTIFY ON S. 2197, THE FEDERAL EMPLOYEES' OPTIONAL EARLY RETIREMENT ACT OF 1986. MY NAME IS VINCENT R. SOMBROTTO, PRESIDENT OF THE NATIONAL ASSOCIATION OF LETTER CARRIERS, A UNION REPRESENTING OVER 285,000 ACTIVE AND RETIRED CITY LETTER CARRIERS.

WE SUPPORT THE CONCEPT OF A WORKABLE, EARLY RETIREMENT PLAN AND APPRECIATE YOUR EFFORTS IN THAT DIRECTION. THE NALC WOULD LIKE TO WORK WITH YOU TO DEVELOP A MUTUALLY BENEFICIAL SYSTEM FOR LETTER CARRIERS, THE USPS AND THE AMERICAN PEOPLE.

THE PRESENT POSTAL SERVICE WORKFORCE IS 773,000. WE ESTIMATE THAT 110,500 POSTAL SERVICE EMPLOYEES WOULD BE ELIGIBLE TO RETIRE UNDER YOUR BILL. FURTHERMORE, ANOTHER 70,000 EMPLOYEES CURRENTLY ARE ELIGIBLE TO RETIRE UNDER EXISTING CIVIL SERVICE REGULATIONS, BUT THEY HAVE NOT CHOSEN TO DO SO. THEREFORE, THERE IS THE POTENTIAL FOR 180,500 RETIREMENTS. THAT IS 23.4% OF THE POSTAL WORK FORCE.

YOUR BILL WOULD QUALIFY APPROXIMATELY 27,625 LETTER CARRIERS FOR AN EARLY-OUT OPTION WHILE AN ADDITIONAL 17,500 ARE ELIGIBLE TO RETIRE UNDER EXISTING RULES. THE TOTAL ELIGIBLE WOULD BE 45,125, WHICH IS 20% OF OUR CRAFT. IF ALL THOSE PEOPLE TOOK ADVANTAGE OF BOTH YOUR WINDOW AND CSRS RETIREMENT, THE RESULTS TO THE POSTAL SERVICE, WHICH IS THE HEART OF AMERICA'S COMMUNICATIONS NETWORK, WOULD BE DISASTROUS.

THAT LEADS US TO THE MILLION DOLLAR QUESTION: HOW MANY PEOPLE ACTUALLY WOULD RETIRE? THE POLITICAL ATMOSPHERE IN

WASHINGTON PLAYS A SIGNIFICANT ROLE. MANY LETTER CARRIERS WHO ARE CLOSE TO RETIREMENT ARE WORRIED ABOUT THEIR FUTURE BECAUSE OF IMPENDING ATTEMPTS TO REPEAL THE THREE YEAR RECOVERY RULE, UPON WHICH THEY HAVE BASED THEIR LIFE SAVINGS. THEY ARE AWARE OF ATTEMPTS TO RAISE THE RETIREMENT AGE, CHANGE THE COLA AND ANNUITY FORMULAS, AND REDUCE SURVIVOR BENEFITS. BUDGET DIRECTOR JAMES MILLER'S COMMENTS ABOUT "SELLING OFF" THE POSTAL SERVICE HAVE HEIGHTENED TENSIONS. MR. CHAIRMAN, RETIREMENT IS ON PEOPLES' MINDS.

IN TRYING TO PREDICT THE FUTURE, WE HAVE CERTAIN HISTORICAL DATA FROM THE PRIVATE SECTOR FROM WHICH TO DRAW LESSONS. I WOULD LIKE TO SUMMARIZE A SURVEY[1] OF 363 LARGE CORPORATIONS, OF WHICH 62.1% OFFERED EARLY RETIREMENT INCENTIVES IN THEIR NORMAL PENSION PLANS. THIRTY-SIX PERCENT OFFERED AN OPEN WINDOW AT LEAST ONCE SINCE 1970. IN TWO-THIRDS OF THE OPEN WINDOW PROGRAMS, 50% OF THOSE ELIGIBLE TOOK ADVANTAGE OF THE PROGRAM. IN THE POSTAL SERVICE, THIS WOULD TRANSLATE TO THE IMMEDIATE RETIREMENT OF 55,000 POSTAL EMPLOYEES.

WE HAVE AN INSIGHT INTO THE EFFECT OF MASS RETIREMENTS ON THE POSTAL SERVICE. IN THE MID-1970'S AN EARLY OUT RETIREMENT PLAN WAS COUPLED WITH A HIRING FREEZE. WHEN MAIL VOLUME INCREASED, SERVICE SUFFERED: EFFICIENCY WENT DOWN AND OVERTIME COSTS WENT UP. THEY HAD TO INSTITUTE AN EMERGENCY, REHIRING

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[1] THE CONFERENCE BOARD, "MANAGING OLDER WORKERS: COMPANY POLICY AND ATTITUDES," REPORT NO. 860, 1984, NEW YORK.

PROGRAM.

THERE SHOULD BE NO DOUBT THAT THE POSTAL SERVICE IS IN A SIMILAR POSITION TODAY AND WOULD HAVE TO HIRE IMMEDIATELY, WITHOUT GOING THROUGH A WAIVER PROCESS. WE ARE EXPERIENCING INCREASED MAIL VOLUME: GROWTH HAS AVERAGED 8% PER YEAR SINCE THE END OF FY 1983. IN FY 1985, OVER 1,350,000 DELIVERY POINTS WERE ADDED. CONSEQUENTLY, BETWEEN OCTOBER 1984 AND MARCH 1986, USPS EMPLOYMENT ROSE BY 99,298. FOR OUR CRAFT THAT TRANSLATES TO 1,400 ADDITIONAL LETTER CARRIERS ADDED EACH MONTH SINCE SEPTEMBER, 1985. THE POSTAL SERVICE IS HIRING NOW.

THIS EMPLOYMENT SURGE IMPROVED POSTAL EFFICIENCY, WHICH HAS RISEN TO 95% FOR NEXT DAY DELIVERY WITHIN CITIES. ADDITIONAL HIRING ALSO WAS COST-EFFECTIVE: OVERTIME HAS BEEN REDUCED FROM 9.0% OF TOTAL WORK-HOURS IN FY 1985 TO 6.4% IN FY 1986, AND OVERTIME COSTS WILL BE CUT BY $112.5 MILLION IN FY 1986. THE POSTAL SERVICE CURRENTLY IS RUNNING A SURPLUS. IF THAT TREND IS REVERSED, IT WOULD COST THE POSTAL SERVICE $43 MILLION FOR EACH PERCENTAGE POINT INCREASE IN OVERTIME ALONE.

AN ANSWER TO THE PROBLEM OF DISRUPTION OF SERVICE LIES IN THE "USER FEES" SECTION OF YOUR BILL. THE USPS GETS NO OPERATING SUBSIDIES FROM CONGRESS; REVENUES COME FROM POSTAGE. THEREFORE, THE USPS SHOULD QUALIFY FOR AN EXEMPTION. EVEN WITH AN EXEMPTION, IT TAKES MONTHS FOR TRAINEES TO LEARN THE RUDIMENTARY ASPECTS OF OUR JOB, AND MUCH LONGER TO KNOW ALL THE SUBTLETIES. SORTING AND DELIVERING MAIL IS NOT A SKILL WHICH IS LEARNED EASILY.

We have some suggestions to provide an orderly transition. A survey should be taken to determine how many employees would use an early out option so that adequate hiring and training plans can be in place prior to the window.

Without relief from the hiring freeze, contracting out would be the direct result of massive, immediate retirements. Congress has consistently and adamantly opposed privatization as costly, ineffective and inadequate. OMB Director James Miller witnessed your Committee's strong support for the Private Express Statutes at his confirmation hearing; committee members expressed concern and disagreement with his position.

. If there is a lowering of standards -- which certainly would result from contracting-out -- not only will Congress be besieged with complaints, but certain innovative, new programs such as Express Mail and International Priority Mail will be imperiled. Free postal services such as draft registration, distribution of income tax forms, low-cost mail to the Armed Forces overseas and food stamp distribution would suffer.

I would like to point out something else from the private sector study previously mentioned: the private sector offers bonuses for people retiring during an early out window. Fifty-four percent of the programs surveyed offered eligible employees bonus payments. Fourteen percent offered eligible employees benefits more liberal than those available through the normal early retirement provisions. Thirty-two percent offered both bonus payments and additional pension benefits.

Similarly, the Postal Service early out plan in the mid-1970's offered bonuses. Yet S. 2197 penalizes employees 2% for each year under age 55. If the rationale for the penalty was that it will reduce the number of people who leave, then Administration proposals and adverse Congressional actions in the tax bill and Gramm-Rudman negate that. If the rationale was to save money, the cost to the Postal Service (which is an independent agency) of training, hiring and repairing disrupted service will mitigate some -- and possibly all -- of the savings. As I said, retirement is on peoples' minds.

Letter carriers deserve an early retirement without penalty. I have some examples. There are letter carriers who have reached ages 55, 60 or 62 but do not have the minimum years of service who, often for physical reasons, would welcome an equitable, early retirement option. Also, there are letter carriers at age 50 with 30 years service who would like to retire.

But the current bill contains damaging penalties. We have worked out some figures which I would like to submit for the record after I testify. I would like to examine a typical case. Under S. 2197, a letter carrier retiring at age 50 with 20 years service would receive a basic annuity of $ 7,032 per year before paying taxes, health plan or providing for a survivor annuity. During an average life-span, that letter carrier would lose $56,462 in reduced annuity benefits.

ADDITIONALLY, THIS EARLY OUT PENALTY WOULD HAVE A GREATER IMPACT ON SURVIVING SPOUSES, WHOSE ANNUITY WOULD BE FURTHER REDUCED. TODAY, THE AVERAGE SURVIVOR ANNUITY IS LESS THAN $500 PER MONTH. THE EARLY OUT PROPOSAL WITH THE CURRENT PENALTIES WOULD PUSH THAT AMOUNT EVEN LOWER AND PUT SURVIVING SPOUSES BELOW THE POVERTY LEVEL. MR. CHAIRMAN, THE ANNUITY IS ENTIRELY TOO LOW AND THE LOSS ENTIRELY TOO MUCH.

A RECOMMENDATION WE WOULD LIKE TO OFFER IN THIS BILL TO HELP PEOPLE MAKE THEIR DECISIONS IS TO PROVIDE INDIVIDUALS WITH RETIREMENT COUNSELING. SUCH COUNSELING WOULD INCLUDE DATA ON THE ADVANTAGES OR DISADVANTAGES OF RETIRING.

THIS CONCLUDES MY TESTIMONY, MR. CHAIRMAN. I WILL BE GLAD TO ANSWER ANY QUESTIONS YOU MAY HAVE.

S. 2197, Early Retirement Bill: Fact Sheet

I. Eligibility for Early Out Retirement

A. Eligible Federal Employee Types

1. Any age with 25 years of service.
2. Age 50 with 20 years of service.
3. Age 55 with 15 years of service
4. Age 57 with 5 years of service.

B. Postal Employees Eligible for Retirement in FY-1986

1. Approximately 110,500[1] postal workers would qualify to retire under the early out provisions of S. 2197.
2. An additional 70,000 postal employees are eligible to retire in FY-86 under normal Civil Service retirement rules according to the Postal Service.
3. TOTAL: Up to 180,500 postal employees or 23.4 percent of the postal work force would be eligible in FY-86 under early out and normal CSRS rules if S. 2197 were to become law.

C. City Carriers Eligible to Retire in FY-86

1. Approximately 27,625 city carriers would qualify for early retirement under S. 2197.
2. Some 17,500 carriers may retire in FY-86 under normal CSRS rules.
3. An estimated 45,125 city carriers could retire under early out and normal CSRS rules in 1986. This represents approximately 20.4% of the carrier work force.

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[1] Assumes USPS work force is approximately similar to the total work force, of which 1 of every 7 federal workers would be eligible to retire under S. 2197 according to the OPM.

Financial Impact on Carriers Opting for Early Retirement under S. 2197

A. Example I: Age 45 with 25 Years of Service

1. "Early Out" Annuity: $7,457
   a. High 3 Average (July 1, 1986) = $21,585
   b. Basic annuity (without survivor's benefits or 2% per year penalty) = $9,983
   c. Penalty: 2% per year x 10 years = $1,997
      Survivor's annuity deduction = $529
   d. "Early Out" Annuity = $7,457
      (28.4% of final salary)
   e. Normal annuity in 1996 = $17,566
      (If worked to age 55 for a total of 35 years of service and deducted for a survivor's annuity, assuming basic salary growth of 3 percent annually)
2. Forgone Income and Annuity Benefits
   a. Lost income as letter carrier: 1986-1996
      (1) Gross dollar amount = $339,326[2]
      (2) Net present value = $265,701[3]
   b. Annuity loss over life expectancy: 1986-2015
      (1) Gross dollar amount = $117237[4]
      (2) Net present value = $20,881[3/]
   c. Total financial loss: 1986-2015
      (1) Gross dollar amount = $456,563[2/] [4/]
      (2) Net present value = $286,581[3/]

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[2] Assumes growth in letter carrier salaries of 5% annually.

[3] Assumes a discount rate of 4%.

[4] Assumes annual annuity COLA of 3%.

B. Example II: Age 50 with 20 Years of Service

1. Early Out Annuity: $6,608
    - a. High 3 Average (July 1, 1986) - $21,585
    - b. Basic annuity (without survivor's benefits or 2%/yr. penalty) = $7,825
    - c. Penalty: 2% x 5 years = 10% = $783 Survivor's annuity deduction = $434
    - d. "Early Out" Annuity = $6,608 (25.2% of final salary)
    - e. Normal annuity in 1996 = $14,956 (If worked until age 60 for a total of 30 years of service and deducted for a survivor's annuity, assuming basic salary growth of 3 percent annually)
2. Forgone Income and Annuity Benefits
    - a. Lost income as letter carrier: 1986-1996
        - (1) Gross dollar amount = $339,326 2/
        - (2) Net present value - $265,701 3/
    - b. Annuity loss over life expectancy: 1986-2012
        - (1) Gross dollar amount = $56,462 4/
        - (2) Net present value = $1,311 3/
    - c. Total financial loss: 1986-2012
        - (1) Gross dollar amount = $395,783 2/ 4/
        - (2) Net present value = $267,011 3/

C. Example III: Age 55 with 15 Years of Service

1. Early out annuity: $5,369

   a. High 3 Average (July 1, 1986) = $21,585

   b. "Early Out" Annuity = $5,369
      (21.6% of final salary; includes $297
      deduction for a survivor's annuity)

   c. Normal annuity in 1991 = $8,434
      (If worked until age 60 for a total of 20
      years of service and deducted for a
      survivor's annuity, assuming growth
      in basic salary of 3 percent annually)

2. Forgone Income and Annuity Benefits

   a. Lost income as letter carrier: 1986-1991

      (1) Gross dollar amount = $149,438[2/]

      (2) Net present value = $129,996[3/]

   b. Annuity loss over life expectancy:
      1986-2007

      (1) Gross dollar amount = $19,581[4/]

      (2) Net present value = $2,189[3/]

   c. Total financial loss: 1986-2007

      (1) Gross dollar amount = $169,021[2/] [4/]

      (2) Net present value = $132,185[3/]

D. Example IV: Age 57 with 5 Years of Service

1. Early out annuity: $1,437
    - a. High 3 Average (July 1, 1986) = $19,650
    - b. "Early Out" Annuity = $1,437 (5.8% of final salary; includes $37 deduction for a survivor's annuity)
    - c. Normal annuity in 1991 = $3,602 (If worked until age 62 for a total of 10 years of serviceand deducted for a survivor's annuity, assuming basic salary growth of 3 percent annually)
2. Forgone Income and Annuity Benefits
    - a. Lost income as letter carrier: 1986-1991
        - (1) Gross dollar amount = $134,640[2/]
        - (2) Net present value = $117,180[3/]
    - b. Annuity loss over life expectancy: 1986-2005
        - (1) Gross dollar amount = $28,382[4/]
        - (2) Net present value = $14,694[3/]
    - c. Total financial loss: 1986-2005
        - (1) Gross dollar amount = $163,022[2/] [4/]
        - (2) Net present value = $131,874[3/]

III. Early Retirement Programs in the Private Sector

A. Conference Board Study[5]:

A 1984 survey conducted by the Conference Board examined the retirement and pension policies of 363 large corporations. "Open Window" or "Early Out" retirement programs were studied. The study's findings are outlined below.

- 36% of the corporations offered open window/ early out programs at least once since 1970
- Of these:
  - o 54% offered employees eligible to take part in the programs bonus payments if they retired early
  - o 14% offered employees opting to retire early pension benefits more liberal than those already available through the normal early retirement provisions of the companies' pension plans
  - o 32% offered both bonus payments both bonus payments and additional pension benefits
    - In two-thirds of these private open window/early out programs, one-half of those eligible accepted the early option

B. S. 2197 vs. Private Early Out Programs

- S. 2197 does not provide financial incentives comparable to those found in private sector early out retirement programs
- S. 2197 actually financially penalizes those who accept the offer to retire early
- None of the private sector early out programs surveyed by the Conference Board study imposed such penalties

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[5] The Conference Board, "Managing Older Workers: Company Policy and Attitudes," Report No. 860, 1984, New York.

IV. Impact of S. 2197 on the U.S. Postal Service

A. Lose Thousands of Employees When Needed Most

- Mail Volume growth has averaged 8% during the past two fiscal years and is expected to continue to grow steadily in the future. A reduced work force and hiring freeze would cripple efforts to handle the increased work load

- The Postal Service served 1,350,000 new delivery points in FY-85 and has added an average of over 1 million such points in each year since FY-1981. In this light, a larger, not smaller work force will be required

- S. 2197 would directly contradict the personnel needs of the Postal Service which has added over 99,000 new jobs since October, 1984 -- including 25,000 additional letter carriers

B. S. 2197 Will Not Reduce the Deficit and Will Raise the Costs of the Postal Service

- The payroll costs of the Postal Service, as an independent government corporation, are not included in federal budget. S. 2197 as it relates to the USPS will not reduce the federal budget deficit

- S. 2197 will raise the expenses of the Postal Service considerably:

  - o Overtime costs will skyrocket. A smaller work force handling a growing volume of mail will require increased overtime. The Service will save an estimated $112.5 million in FY-86 as a result of reducing overtime as a percentage of total work hours from 9.0% in FY-85 to the current rate of 6.4% in the FY-86. Each percentage point increase in overtime as a portion of total work hours will cost the USPS $43.3 million

(MORE)

- o A younger, less experienced postal work force will decrease efficiency, raising the cost of delivering the mail
- o A younger postal work force will also turnover at a greater rate, raising training costs

C. Other Costs

- S. 2197 will disrupt and delay the delivery of the mail
- Poor service could reduce mail volume (especially Express Mail) and ultimately cost the Service revenues

APWU
American Postal Workers Union, AFL-CIO
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Mr. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I am Moe Biller, President of the American Postal Workers Union, AFL-CIO. The American Postal Workers Union is the largest postal union in the country, representing over 335,000 postal workers nationwide. Legislative Aide, Roy Braunstein, and I are pleased to appear before the Committee today to present our union's views on S.2197, the "Federal Employee's Optional Early Retirement Act of 1986".

The American Postal Workers Union has traditionally favored and sought greater opportunities for early retirement for the postal work force. Postal workers whose jobs require taxing physical activity frequently develop debilitating physical problems. Often these problems are aggravated by the stress of production requirements and result in the worker retiring for considerations of health while needing to maintain a comfortable standard of living.

Another important benefit to early retirement is that it results in increased job opportunities. This is particularly beneficial to young American men and women who are just entering the work force. This is one of the primary reasons early retirement was enacted by Congress--to encourage work place opportunities for the young. As such, it is a beneficial tool for both the work force and for management.

We believe that S.2197, while well intentioned, will obviate the benefits of early retirement for the government and the U.S. Postal Service. As introduced, S.2197 would establish a six-month period, between July 1, 1986 and December 31, 1986, during which those postal and federal workers who meet standards established by the legislation, would become immediately eligible for retirement. This eligibility would be conferred on selected employees without consideration of normal age and length of service requirements established for Civil Service Retirement eligibility. By their very nature, abrupt and temporary changes in these requirements produce inequities, especially for those employees who just barely miss the temporary eligibility criteria.

Under S.2197, postal and federal workers would become immediately eligible for retirement during the last six months of this year if they fall into one of the following 4 categories:

(1) Age 50, with 20 years of service;

(2) Age 55, with 15 years of service;

(3) Age 57, with 5 years of service; or

(4) at any age, with 25 years of federal service.

These standards include all employees of the Executive and Legislative branches of the federal government, including the U.S. Postal Service, who would reach the normal retirement age within the next five years and any employee who would qualify for the special "early out" options provided by current law.

S.2197 provides that, if an employee meeting one of these standards elects to retire within the "six-month window" period, he or she will receive full retirement benefits if the worker is age 55 or above. However, if the employee elects to retire before age 55, he or she will have his or her annuity reduced by two percent for each year under age 55.

Thus, a worker retiring at age 52 with 30 years of service compared to another worker retiring at age 57 also with 30 years of service will receive nearly $10,000 less in benefits over the first ten years of retirement.

Similarly, a worker retiring at age 50 with 20 years of service compared to another worker retiring at age 60 with 20 years of service will receive over $10,500 less in benefits over the first ten years of retirement. We have prepared some comparison tables of typical retirees under S.2197 in attachments to the testimony.

APWU does not support any penalties for pre-55 retirement. The legislation would permit a worker who entered the Postal Service at age 20 to elect retirement with 25 years of service. It would be a very tempting offer for most people. However, under the legislation's provisions the postal worker would have his or her annuity reduced by 20 percent. Although the worker may recognize the necessity to attain employment outside of government upon retirement from the Postal Service, the transition to private employment may not be as easy as the worker anticipated. The combination of the reduced retirement benefit and in adequate employment may cause a difficult and unanticipated hardship.

If the early retirement legislation is passed and contains the pre-55 penalty, APWU believes it is the responsibility of the Office of Personnel Management to inform and educate federal and postal employees of the potential for significantly reduced income. A table presented with this testimony (Postal Worker #3) demonstrates that a Postal Worker retiring under the early out provision at age 50 with 20 years of service would need to earn over $250,000 in private employment to make up for lost wages and retirement income she or he would have received if postal employment had been continued until age 60.

While we understand that many employees would favor this bill if they fit the categories cited in the bill, the APWU must represent all of its members, and this bill leaves huge unanswered questions, both for those members who would contemplate retirement under S.2197 and those who remain in the workforce under the provisions of the bill and cannot retire.

S.2197 also stipulates that, for the five-year period between 1986 and 1991--the period in which the Gramm-Rudman-Hollings Deficit Reduction Act remains in effect--that no agency may hire new employees to fill the vacancies created by the authorized early retirements. We assume that it is the sponsor's intent to allow these vacancies to be filled from within the established work force. Nevertheless, S.2197, in effect, legislates a hiring freeze for an incomprehensible five-year period.

Under S.2197's employment reduction provisions, each agency would be subject to a separate personnel ceiling that declines to the extent that its employees retire, either under the provisions of the proposed bill or current law. At the end of the window period, the reduced employment ceiling would remain in effect through September 30, 1991.

The bill allows the Office of Personnel Management (OPM) to waive the hiring restrictions for a position or class of positions and further allows the government to contract out to acommodate agencies' increased workloads, if financially beneficial to the agency.

Mr. Chairman, these provisions establishing an employment ceiling for the Postal Service are a huge intrusion by Congress into the operations and independence of the Postal Service as established under the Postal Reorganization Act. Furthermore, these ceilings cause a severe imbalance and distortion in the collective bargaining process. The waiver process also appears to place the OPM in a position of authority over the Postal Board of Governors regarding the purely operational decision of how many employees the Postal Service has to do the job. I am appalled that the Congress is even considering such an involvement in the detailed management of the Postal Service.

The Postal Service handled 119.381 billion pieces of mail in 1983 with 678,845 employees. That volume increased to 131.545 billion pieces of mail in 1984 with 702,123 employees, and to 140.098 billion pieces of mail in 1985 with 744,490 employees. Clearly, postal management must retain the independence granted under the Postal Reorganization Act, and through an even-handed collective bargaining process, to determine the number of personnel necessary to handle the mail volume. Giving authority to the OPM would be tantamount to turning the USPS operationally back into a federal department. The USPS would not have the authority to run its operations in a business-like manner and could make no service guarantees. Arbitrary cuts in personnel would, of course, force the Postal Service to cut the least profitable services, and, of course, we know that that means service to hard-to-reach rural areas and low-income inner city areas.

The personnel freeze aspects of S.2197 clearly apply to the Postal Service since the bill covers all executive agencies. The definition of Executive Agency is taken from 5 U.S.C. Section 105, which covers all "independent establishments". 39 U.S.C. Section 201 defines USPS as an independent establishment of the United States Government.

Postal workers are extremely sensitive to working conditions such as mandatory overtime which, until the 1984 arbitration decision by Clark Karr involving penalty overtime pay, was widely utilized by postal management. There is a 60-hour limit on overtime as per the 1984 arbitration decision. Postal workers also are concerned about the ramifications of possible "excessing"--transferring their employment from locale to locale to replace former postal workers who would retire under S.2197. S.2197 offers no protections in those areas, nor does it offer protection in terms of reversion or abolishment of senior positions. When senior employees retire, junior employees can then exercise their seniority to bid for specific job functions, pay locations, hours of work and days off. If the preferential positions are reverted, abolished or frozen through a hiring freeze, then the seniority principle will have failed as junior employees, who labor many years under difficult working conditions waiting for a more advantageous bid to become available, are denied this opportunity.

In terms of the possible decline in postal services under this bill, if the USPS must endure a five-year hiring freeze for positions vacated in the window period, then OPM may have the opportunity to contract out postal work. However, it should be noted that the Postal Service is contracturally bound by a 5 percent limit on provisional or casual employees; the Postal Service has already reached this limit. This could be a veiled attempt to derail the Private Express Statutes--the First Class Letter Monopoly which has served this country so well.

The Reagan Administration is the first Administration that does not support the Private Express Statutes. OMB Director James Miller testified before the Joint Economic Committee in 1982 for repeal and subsequently published an article in the CATO Journal advocating the same. The President himself who, in this year's "Economic Report of the President," requested consideration of contracting out rural delivery of mail by attrition and sortation of mail. Thus, we have become very suspicious of anything to do with subcontracting.

Section (2) (g) of S.2197 states "The President shall take appropriate action to ensure that there is no increase in the procurement of personal services by contract by reason of the enactment of this section except in cases in which it is to the financial advantage of the Federal Government to increase the procurement of such services.

"(h) The Director of the Office of Personnel Mangement may prescribe regulations to carry out this section."

There are some entrepreneurs that would like to provide postal services in urban areas at less cost. This practice is called cream-skimming. What is left in rural areas and urban areas with high density of crime is a need for higher attributable costs, which would force either higher rates, USPS general subsidies, or massive reductions in service. APWU cannot support any legislation which would have such an impact.

Finally, we believe that the sponsors of the legislation were well-intentioned in their introduction of this legislation. However, there is pending before the Committee (and still awaiting resolution) legislation to restructure the Civil Service Retirement program for postal and federal workers hired after 1984. We believe that the Committee must give the highest priority to completing action on the supplemental retirement program before it considers new legislation to encourage workers to retire.

The postal and federal retiree and worker are facing a period of unprecedented uncertainty over the future of their pension program. While prominent members of this Committee serve on the conference Committee and deliberate the supplemental retirement program for employees hired on and after January 1, 1984, the full Senate is preparing to take action on a sweeping tax reform package which may alter the tax treatment of Civil Service annuities as well as possibly changing the configuration of the proposed thrift plan.

Added to this uncertainty is the fate of cost-of-living adjustments, which were suspended under Gramm-Rudman-Hollings and may or may not be restored by the courts or subsequent legislation. We do not believe that postal and federal workers can be well informed and make intelligent decisions concerning retirement under the terms of S.2197 with the Retirement system in its present state of flux and uncertainty.

Given these uncertainties, we recommend substantial amendment of S.2197 to accomodate our union's concerns.

The APWU cannot support S.2197 at this time unless the legislation is amended to:

(1)Eliminate the 2% penalty for retiring before age 55,

(2)Eliminate the five-year freeze, and

(3)Prohibit contracting out positions in the U.S. Postal Service.

We would be willing to work with the Committee to develop early retirement legislation that is compatible with the new supplemental retirement plan when enacted and which is not adversely affected by the tax reform legislation eliminating or phasing-out the three-year exclusionary tax rule for future retirees.

Without the five-year hiring freeze, with language prohibiting contracting out, and without the two percent penalty included in S.2197, APWU would be able to support this legislation.

I thank the Committee for the opportunity to appear. I would be pleased to respond to any questions the Committee may have.

COMPARISON OF TWC POSTAL WORKERS RETIRING AT THE SAME TIME, ONE ELECTING AN EARLY OUT OPTION

POSTAL WORKER #1A	POSTAL WORKER #1B
AGE AT RETIREMENT:57	AGE AT RETIREMENT:52 (EARLY OUT)
YEARS OF SERVICE: 30	YEARS OF SERVICE: 30

HIGH-3 SALARY		BENEFIT IN YEAR OF RETIREMENT	HIGH-3 SALARY		BENEFIT IN YEAR OF RETIREMENT
$24000.00	1	$13500.00	$24000.00	1	$12690.00
	2	$13959.00		2	$13121.46
	3	$14545.28		3	$13672.56
	4	$15185.27		4	$14274.15
	5	$15853.42		5	$14902.22
	6	$16535.12		6	$15543.01
	7	$17246.13		7	$16211.36
	8	$17987.71		8	$16908.45
	9	$18761.18		9	$17635.51
	10	$19567.92		10	$18393.84
TOTAL BENEFITS IN TEN YEARS:		$163141.03			$153352.57

BENEFIT LOSS DUE TO 2% PENALTY: $9788.46

COMPARISON OF TWO POSTAL WORKERS RETIRING AT THE SAME
TIME, ONE ELECTING AN EARLY OUT OPTION

POSTAL WORKER #2A AGE AT RETIREMENT:60 YEARS OF SERVICE: 20			POSTAL WORKER #2B AGE AT RETIREMENT:50 YEARS OF SERVICE: 20		
HIGH-3 SALARY	BENEFIT IN YEAR OF RETIREMENT		HIGH-3 SALARY	BENEFIT IN YEAR OF RETIREMENT	
$24000.00	1	$8700.00	$24000.00	1	$7830.00
	2	$8995.80		2	$8096.22
	3	$9373.62		3	$8436.26
	4	$9786.06		4	$8807.46
	5	$10216.65		5	$9194.98
	6	$10655.97		6	$9590.37
	7	$11114.17		7	$10002.76
	8	$11592.08		8	$10432.87
	9	$12090.54		9	$10881.49
	10	$12610.43		10	$11349.39
TOTAL BENEFITS IN TEN YEARS:		$105135.33			$94621.80
BENEFIT LOSS DUE TO 2% PENALTY:					$10513.53

PROJECTED RETIREMENT BENEFITS OVER A POSTAL WORKER'S
EXPECTED LIFETIME UNDER THE EARLY OUT OPTION
AND THE CURRENT LAW RETIREMENT OPTION

POSTAL WORKER #3A
AGE AT RETIREMENT: 50 (EARLY OUT)
YEARS OF SERVICE: 20

HIGH-3 SALARY	BENEFIT IN YEAR OF RETIREMENT	
$24000.00	1986	$7830.00
	1987	$8096.22
	1988	$8436.26
	1989	$8807.46
	1990	$9194.98
	1991	$9590.37
	1992	$10002.76
	1993	$10432.87
	1994	$10881.49
	1995	$11349.39
	1996	$11837.41
	1997	$12346.42
	1998	$12877.32
	1999	$13431.04
	2000	$14008.58
	2001	$14610.95
	2002	$15239.22
	2003	$15894.51
	2004	$16577.97
	2005	$17290.82
	2006	$18034.33
	2007	$18809.80
	2008	$19618.63
	2009	$20462.23
	2010	$21342.10
TOTAL BENEFITS OVER LIFETIME:		$337003.13
TOTAL BENEFITS AND SALARY AFTER 1986:		$337003.13

POSTAL WORKER #3A (NORMAL RETIREMENT)
AGE AT RETIREMENT: 60
YEARS OF SERVICE: 30

HIGH-3 SALARY	SALARY EARNED FROM AGE 50-60*		BENEFIT IN YEAR OF RETIREMENT	
$34041.00	1986	$24648.00	1996	$12339.86
	1987	$25313.50	1997	$12759.42
	1988	$26376.66	1998	$13295.31
	1989	$27537.24	1999	$13880.31
	1990	$28748.87	2000	$14491.04
	1991	$29985.08	2001	$15114.16
	1992	$31274.43	2002	$15764.06
	1993	$32619.23	2003	$16441.92
	1994	$34021.86	2004	$17148.92
	1995	$35484.80	2005	$17886.32
			2006	$18655.44
TOTAL TEN YEAR SALARY:		$296009.68	2007	$19457.62
			2008	$20294.30
			2009	$21166.95
			2010	$22077.13
			2011	$23026.45
			2012	$24016.59
TOTAL BENEFITS OVER LIFETIME:				$297815.80
TOTAL BENEFITS AND SALARY AFTER 1986:				$593825.48

* THE YEARLY SALARIES IN THIS COLUMN INCLUDE ANNUAL SALARY ADJUSTMENTS
BASED UPON CURRENT APWU BARGAINING AGREEMENTS AND THE CONSUMER PRICE INDEX
FOR THE YEARS 1986-1994 AS PROJECTED BY THE CONGRESSIONAL BUDGET OFFICE IN FEBRUARY, 1986.

THE RESPONSES TO QUESTIONS SUBMITTED TO THE AMERICAN POSTAL WORKERS' UNION ON S.2197, THE FEDERAL EMPLOYEE'S EARLY RETIREMENT ACT OF 1986

Q. Isn't it fair to have a small penalty for early retirement? After all, most private pension plans have such a reduction for retirement before age 60 or 62 even under their regular rules.

A. No, it isnt fair. Most private employers provide a bonus as an incentive under an early out option--not a penalty.

The correct comparison for private plans is their treatment of employees in special early out programs vs. those who follow the regular rules. Private-sector early out programs usually offer bonuses to induce people to retire early, not penalties as S. 2197 proposes.

Q. The main reason for proposing this legislation is to offer government agencies a relatively easy way to make some of the budget reductions that must occur if the deficits are to be cut. How can we be sure to accomplish this purpose if we don't impose a freeze on filling vacated positions?

A. There are no deficit savings in applying personnel ceilings to the Postal Service. Plus an arbitrary freeze on agency hiring is bad management.

Budget reductions will occur when the more senior employees take retirement and, if replaced, are succeeded by less senior workers. To attempt further reductions by arbitrarily freezing agency hiring based on an unpredictable pattern of early retirements makes no sense. It especially is nonsensical in an agency such as USPS, which is performing a massive production and distribution job that serves every community in the nation. Holding certain job openings won't work in USPS--attempting such a policy will jeopardize mail service.

Q. Don't you think that most of the people who will take advantage of early retirement will start new jobs so that the 2-percent penalty won't be much of a concern?

A. There is not much time for current workers to assess their prospects and make adequate preparation for retirement. Some workers may be induced to retire and then not be able to find employment.

I am sure that some early retirees will move into new jobs. However, many postal workers may plan on doing that without really knowing whether jobs will be available for them in the private sector or what they will pay. These people may be induced to retire without adequate preparation and planning and find that there are no jobs paying decent wages in their local areas. Then they will be faced with either drastically cutting back on their family budgets or moving to a new job market and trying their luck there. Neither option is very attractive for someone who is at an older age where starting over is very Difficult.

Q. Would you oppose contracting out if it were restricted to certain tasks where experience has already shown that economies can be realized with no loss in service?

A. This Administration cannot be trusted with additional authority to contract out. Furthermore, estimates of savings are never made by a cut-and-dried process. They are often the result of substandard wages paid by contractors.

The Administration is on record as favoring privatization of postal services. Contracting-out authority could be used to further their ideological position on this subject. The losers would be the American people, who would find their postal services cut way back or priced beyond their reach in many of our rural communities and central-city neighborhoods.

Q. Where do your members stand on this chance to get out on early retirement? Do you think that they are worried about the 2-percent penalty?

A. I suspect that our members are very confused right now. The changes in the tax law, the new retirement plan and the 1986 COLA elimination have made retirement planning very difficult.

APWU members have learned recently that the tax rules on retirement benefits may change drastically, which may move them to retire right away if they can to stay under the current tax rules. They know that a new retirement system may be in the works, but they are not yet sure of its rules or how it would affect them. They have heard that retirees will get no COLAs for 5 years due to the Gramm-Rudman amendment. And now they find out that a bill is in hearings that will extend eligibility to retire on a one-time basis. I would guess that our members are wary of all these changes and I would hope that they look this "gift horse" over very carefully. Unfortunately, there is not much time for an individual to review the options and make an informed decision.

Q. If USPS were not subject to the hiring freeze, how do you think the Postal Service would act on filling positions opened up by retirement?

A. Enough to maintain the level of service expected and to avoid imposing unreasonable workloads on those currently employed.

I would hope that positions would be filled as necessary to maintain the level of service expected of us and to avoid laying unreasonable workloads on those who do not retire. I think it is impossible to say in advance how many jobs could safely be left open or for how long, because such a forecast would necessitate knowing where the retirements occur and how the demand for postal services will change over the next few years.

FAIR
FUND FOR ASSURING AN INDEPENDENT RETIREMENT

Vincent R. Sombrotto, *Chairman*
Sandra Sue Adams-Choate, *Secretary*

Member Organizations

American Federation of Government Employees
American Foreign Service Association
American Postal Workers Union
Epsilon Sigma Phi
Federal Executive and Professional Association
Federal Managers Association
Federally Employed Women
Graphic Communications International Union
International Federation of Professional and Technical Engineers
International Union of Operating Engineers
Military Sea Transport Union SIU
National Association of Air Traffic Specialists
National Association of ASCS County Office Employees
ional Association of Federal Veterinarians
National Association of Government Employees
National Association of Letter Carriers
National Association of Postal Supervisors
National Association of Postmasters of the United States
National Association of Retired Federal Employees
National Federation of Federal Employees
National Labor Relations Board Union
National League of Postmasters of the United States
National Rural Letter Carriers Association
National Treasury Employees Union
Organization of Professional Employees of the Department of Agriculture
tic Employee Department AFL-CIO
Service Employees International Union
United States Air Traffic Controllers Organization

Fact Sheet "Early Out" Window
For Federal Retirees

The member organizations of FAIR support the principle of early retirement. Early retirement provides an opportunity for employees who want or need to retire. Additionally, it can be used to allow older workers to retire and thus prevent younger workers from being riffed when reductions in force occur.

However, S.2197 as presently drafted raises some serious concerns.

*Individuals opting for early retirement are penalized 2% for each year under age 55. Not only does this reduce the employee's annuity, it also reduces the surviving spouse benefit by an equal percentage. The average spouse annuity is less than $500.

*A five year hiring freeze could result in agencies being unable to carry out their Congressional mandate. According to OPM, 1 out of every 7 federal workers would be eligible to retire under S.2197.

*If the government is unable to hire or train replacements, contracting out would become its sole option. Studies show that in most cases contracting out ends up costing the taxpayer more in the long run.

*Early out could result in the exodus of many highly trained, skilled employees who would be difficult, if not impossible to replace, particularly given the level of pay in the federal government. Federal employees' pay lags 21% behind their counterparts in the private sector.

100 INDIANA AVENUE, N.W., ROOM 813 • WASHINGTON, D.C. 20001 • (202) 393-4695

American Foreign Service Association

May 19, 1986

The Honorable William V. Roth, Chairman,
Committee on Governmental Affairs
United States Senate
Washington, D. C. 20510

Dear Senator Roth:

In your hearings on S. 2197 held on May 15, you indicated that you regarded the present bill as being a first draft, and that you and your Committee would be willing to consider any changes designed to overcome problems created by certain of its provisions. We wish to express our deep concern over two provisions in S. 2197 which would have a most adverse effect on the Foreign Service.

First, as you may know, eligibility for retirement from the Foreign Service, as with a number of other special occupational groups within the federal government, has long been established at age 50 with 20 years' service. S. 2197 would reduce the retirement benefit by 2% for each year a retiree were under age 55. Introducing this penalty into the present structure of the Foreign Service Retirement and Disability system would seriously disrupt the Foreign Service retirement process, producing a result directly opposite from the purpose of S.2197 which, presumably, is to provide an incentive for employees to take early retirement from the federal service.

Second, the Foreign Service personnel system operates on an "up or out" basis. Each year, members of the Service are obliged to retire, either for failing to meet their time-in-class requirements or for other reasons arising out of the Selection Board process. Consequently, each year a number of upper-grade personnel must leave the Service while new people, selected through a rigorous and highly competetive series of examinations and interviews, enter the Service as entry-level recruits. Obviously, the hiring freeze prescribed in S. 2197 would disrupt completely this procedure, thus in effect shutting down the Foreign Service personnel process.

Consequently, we rerpectfully urge your committee to consider exempting the Foreign Service from coverage under S. 2197 as has already been done for other special occupational groups such as law enforcement officers, firefighters, and air traffic controllers. If this is not possible, we urge that the language of S. 2197 be modified so that it will not impose the 2% penalty on any Foreign Service employee retiring before age 55, while exempting the Foreign Service as a whole from the prohibition against recruiting personnel to replace those persons retiring during the time period specified in S. 2197.

Sincerely,

Gerald P. Lamberty
President

2101 E Street NW Washington, DC 20037 (202) 338-4045

ASSOCIATION OF CIVILIAN TECHNICIANS

JOHN T. HUNTER
National President

STATEMENT BY
JOHN T. HUNTER
PRESIDENT OF THE
ASSOCIATION OF CIVILIAN TECHNICIANS
FOR THE
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
ON S-2197
A BILL TO ESTABLISH AN OPTIONAL EARLY RETIREMENT PROGRAM FOR FEDERAL EMPLOYEES

May 20, 1986

932 Hungerford Dr., Suite 34-A
Rockville, MD 20850 • 301-762-5656

"Duty . . . Dedication . . . Dignity"

Statement by Mr. Hunter May 20, 1986

As President of the Association of Civilian Technicians, I appreciate the opportunity to express our organization's views on S-2197, the Federal Employees Optional Early Retirement Act of 1986.

The Association of Civilian Technicians supports the concept of the legislation as an essential optional alternative to a reduction-in-force. However, we have reservations concerning the implementation factors of the legislation.

Our first concern has to do with the prohibition that prevents agencies from replacing workers who retire during the six month period from July 1, 1986 to December 31, 1986. This would not only slash federal personnel levels by thousands of employees it would seriously jeopardize the operational efficiency of the smaller agencies. For example, A.C.T. represents civilian employees of the National Guard with slightly more than 46,000 employed nation-wide. Any decrease in the present floor strength for these personnel would have a dire effect on the operational capability of the Army and Air National Guard to continue its important function as a part of the total force concept. The various state National Guards must be authorized to replace these essenial personnel who opt for early retirement. The only alternative to relaxing the hiring restriction for an agency is to decrease the work load of that agency. This alternative is not possible in the National Guard because all of the Guard's military equipment and supplies must constantly be maintained in peak operating condition.

Another fear in this area is that the National Guard would seize upon the hiring restriction as an opportunity to fill the vacated civilian personnel positions with Active Guard and Reserve (AGR) personnel. AGR personnel are presently being brought on board at a very rapid rate - over 43,000 to date. Even though these active duty personnel have proven to be far more costly than civilian technician personnel it is no secret that DOD and the National Guard Bureau intend to continue to increase AGR strengths at the expense of the civilian technician program. For these reasons I urge the Committee to delete the hiring restriction from the Bill and that the civilian technician floor strength be maintained in the National Guard.

Secondly - the A.C.T. believes that when an agency must reduce its personnel strengths the early-out option should extend to all employees who meet the eligibility requirements. S-2197 would not cover employees with a mandatory early retirement age and it excludes doctors and nurses. To permit the Administration, or the agencies, to further hand-pick individuals or job classifications for early-out authority could lead to all sorts of improper personnel actions. If there are certain employees or positions that are absolutely essential to the government they shouldn't be penalized for this essentiality. They should be rewarded with special pay rate consideration. Perhaps this would entice these individuals to remain in federal service.

Rumor has it that the DOD will request that National Guard technicians be excluded from early-out coverage. The Association of Civilian Technicians would strongly oppose such an action. If such an action is approved then National Guard technicians should be awarded special pay rates as essential employees.

The early-out provisions of any finalized legislation should be available to all eligible employees across the board without exclusion. Permitting an agency to select groups or positions for early retirement would be no different than a reduction-in-force procedure.

A third area of concern is the possibility of contracting out those positions vacated by early retirees. I realize that this Bill requires that appropriate action should be taken to ensure there is no additional contracting out unless it is of financial advantage to the Federal Government. Agencies, under the best of conditions, seem to have difficulty in performing the required cost comparisons to substantiate contracting out. With a minimum of experienced personnel available it will be even more difficult. Further, this organization suspects that the National Guard Bureau, once all civilian technicians are located in maintenance positions in accordance with present plans, will contract out those maintenance positions as they become vacated. I repeat my earlier request that the National Guard be permitted to hire civilian employees to replace early-out retirees and that a civilian technician floor strength be maintained.

Finally, we question the 2% penalty for each year under age 55. This provision penalized two groups of people - the younger and the lower graded personnel. Eligibility should be based strictly on service without age criteria. Why should an employee age 52 with 30 years service be penalized while an employee age 57 with 30 years service is not? They both served 30 years and both should receive the same annuity. Age distinction should be removed from the legislation. Also, a 2% penalty further reduces the minimal retirement of lower graded personnel and prevents them from participation in an early-out program. Thus, the 2% penalty really limits S-2197 to higher paid employees who can afford the reduction in annuity. Rather than a 2% penalty, the Committee should consider a cash bonus to individuals who accept an early retirement. This would be more in line with current private sector practice.

In conclusion, I wish to reiterate that the A. C. T. supports the concept of early retirement legislation as a viable alternate to reductions-in-force and extensive furlough actions. However, replacement hiring should be authorized for the smaller essential agencies such as the National Guard technician program. I want to emphasize that a civilian floor strength should be maintained in the National Guard civilian technician program and that the National Guard should be restrained from replacing retired employees with Active Guard and Reserve (AGR) personnel. Lastly, early retirement provisions should apply equally to all personnel and the 2% age penalty should be eliminated.

I appreciate the opportunity to present my views today and I am prepared to work with Committee staff to resolve any questions the Committee may have.

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ΣNAATS▷
NATIONAL ASSOCIATION OF AIR TRAFFIC SPECIALISTS
SUITE 415, WHEATON PLAZA NORTH
WHEATON, MARYLAND 20902
Area Code 301
946-0882

May 21, 1986

Senator William V. Roth, Jr., Chairman
Committee on Governmental Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

This is in response to your kind invitation of May 5, 1986, to comment on the provision of S 2197, "The Federal Employees' Optional Early Retirement Act of 1986".

This Association supports the principle of early retirement. Early retirement provides an opportunity for employees who want or need to retire. Additionally, it can be used to allow older workers to retire and thus prevent younger workers from being riffed when reductions in force occur.

However, S 2197, as presently drafted, raises some serious concerns since this Association also supports a strong and capable Federal Government.

A five-year hiring freeze could result in agencies being unable to carry out their Congressional mandate. According to the Office of Personnel Management, one out of every seven Federal workers would be eligible to retire under S 2197.

If the government is unable to hire or train replacements, contracting out would become its sole option. Studies show that in most cases contracting out ends up costing the taxpayer more in the long run.

Early out could result in the exodus of many highly trained, skilled employees who would be difficult, if not impossible, to replace, particularly given the level of pay in the Federal government. Federal employees' pay lags 21% behind their counterparts' in the private sector.

Individuals opting for early retirement are penalized 2% for each year under age 55. Not only does this reduce the employee's annuity, it also reduces the surviving spouse benefit by an equal percentage. The average spouse annuity is less than $500.

Mr. Chairman, thank you for inviting our comments on this important legislation.

Sincerely,

Bruce B. Henry
President

BBH:jfb

NAGE SEIU

NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES

AFFILIATED WITH SERVICE EMPLOYEES INTERNATIONAL UNION, AFL/CIO

1313 "L" STREET, N.W., WASHINGTON, D.C. 20005
202/371-6644

TESTIMONY OF

THE NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES

TO THE

SENATE COMMITTEE ON GOVERNMENTIAL AFFAIRS

REGARDING

S-2197, THE FEDERAL EMPLOYEES OPTIONAL
EARLY RETIREMENT ACT OF 1986

The National Association of Government Employees is an affilliate of the Service Employees International Union (AFL-CIO) which has in excess of 850,000 dues paying members nationwide. We appreciate the invitation to present our views on S-2197 the Federal Employees Optional Early Retirement Act of 1986.

Our union strongly supports the concept of an early retirement plan. We believe that a dignified retirement for all americans, at an age when health and circumstances allow for full appreciation of life, is a desirable goal.

The NAGE represents employees in most of government's agencies with large concentration in the Department of Defense and the Vetrans Administration. While we support the concept of an early retirement, we are most concerned about a number of provisions in S-2197 which could have a damaging impact on government and it's workforce.

The bill imposes in essence, a five year hiring freeze for all government agencies. The hiring freeze will prevent agencies from filling slots vacated by retiring federal workers except under exceptional circumstances. According to the Office of Personnel Management one out of every seven federal workers would be eligable to retire under S-2197. The net effect of this legislation will be a mass exodous from government employement. Experts estimate, based on prior early out options, that as much as 25% of the workforce would elect to retire early. These estimates are confirmed by the volume of calls which we've received indicating an intention to leave the workforce at an ealry age.

There is no evidence to support the proposition that the government can effectively function with substantially fewer employees. The loss of large numbers of governments most senior employees will have a devastating impact on morale, productivity, and the agencies ability to accomplish it's mission. We, thus, vigourously support amending this bill to allow agencies to replace all workers who vacate their position under the early out provisions.

As currently written S-2197 is a tremendous boost to contracting out in the federal sector. Agencies will be forced to find manpower to accomplish it's mission, and lacking the authority to hire more federal workers would have no option but to contract out large sections of the federal workforce. The OMB A-76 contracting out program is at best a controversial one whose dollar impact is questionable. Our experience demonstrates that rather than saving money - contracting out actually cost more money then performance by federal workers. Cost overruns, and inadequate statements of work lead to expenditures double their projections. The size and cost of this contractor workforce is growing by leaps and bounds, yet tragically government has no current means of examing the scope or cost of contracting out. This legislation S-2197 would exacerbate that problem and further waste millions of taxpayer dollars. We need to take steps to get a handle on the run away waste in the contracting out program, not increase it's scope. We urge the committee to amend S-2197 to include language which would prevent any increase in contracting out which might otherwise result with passage of this bill.

Under terms of this legislation individuals opting for early retirement are penalized 2% for each year under age 55. This penalty provision is inconsistent with the private sector practice. In a 1984 survey of 363 large corporations entitled Managing Older Worker: Company Policy And Attitudes, it was discovered that fifty four percent of those companies offering early out options, provided bonuses for people retiring during the early out window. Fourteen percent offered eligible employees benefits more liberal than those available through normal early retirement provisions. Thirty two percent offered both bonus payments and additional pension benefits. We would urge that the penalty provisions be removed from the bill, and federal workers be allowed to retire with their full benefits intact.

Mr. Chairman, S-2197 is in need of drastic amendment. we have highlighted in this testimony only a few of the many problems with the bill. We pledge our cooperation in working with the Committee to make the many necessary changes to the bill. We thank the Committee for this opportunity to present our views.

4212 KING STREET · ALEXANDRIA, VA 22302-1195 · 703 671-6800

NATIONAL ASSOCIATION OF
POSTMASTERS
OF THE UNITED STATES

Hugh Bates
National President

Testimony Of

HUGH BATES
National President
NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

Presented To The

SENATE GOVERNMENTAL AFFAIRS COMMITTEE

On S-2197, The Federal Employees' Optional
Early Retirement Act of 1986

May 30, 1986

Our Nation's Post Offices:
Where the U.S. Flag Flies Every Day!

On behalf of the National Association of Postmasters of the United States (NAPUS), I want to thank you for the opportunity to comment on S-2197, the Federal Employees' Optional Early Retirement Act of 1986.

My name is Hugh Bates and I am postmaster of Clanton, Alabama. I am currently serving as President of NAPUS whose membership includes approximately 43,000 active and retired postmasters in the United States.

NAPUS is fully aware of Congress' attempts to meet the balanced budget requirements for federal agencies set forth in the Gramm-Rudman-Hollings budget deficit reduction act. We favor efforts to eliminate reductions in the federal workforce, which may result from fulfilling these requirements, in the least disruptive manner to both the individual and the agency.

Although we generally support the principle of early-out retirement and recognize the appeal it may have for individual employees, we have reservations with some provisions of S-2197 which could adversely affect the Postal Service in general and postmasters in particular.

We are very concerned about the five-year hiring freeze provision which would not allow for replacement of vital employees. If a significant number of Postal Service employees opts for early-out retirement as specified in S-2197, it could severely impair the Postal Service's abilities to move the mail. If this were to occur, it could increase the likelihood for contracting out -- a measure we are adamantly opposed to.

Whether there were an increase in mail volume or not, the Postal Service would not be able to keep up with mail delivery demands. We would be extremely distressed if contracting out were phased in as a result of lost productivity induced by massive numbers of early retirements without replacements.

We encourage language in the bill which would guarantee that contracting out will not occur. This is an important and vital addition to the legislation and absolutely necessary to maintain the strength and productivity of the Postal Service.

Postmasters and the Postal Service take pride in their ability to deliver the mail in a timely fashion and we want to continue to uphold this high level of service to the mailing public. However, we may not be able to continue to do so if our workforce is depleted by the hiring freeze.

An ongoing issue of concern to postmasters in general is the closing of small post offices, particularly in rural areas. In these small towns, often times the post office is more than just a place to pick up your mail or drop it off. Many residents have come to depend on the post office as a gathering place to renew social ties and to exchange local news. It acts as a meeting place for voluntary and civic groups in the community. Many businesses are helped commercially by being located in close proximity to the post office. And the postmaster is identified as being a leader in the community.

In essence, the post office in these small communities serves as the focal point for many activities involving its residents. By not allowing for replacements in the early-out retirement bill, some of these small post offices may be in jeopardy of being closed. This would be a devastating blow to those communities which have come to rely so heavily on the services provided by their post office.

In considering revisions to this bill, we strongly urge you to exempt the Postal Service from the freeze provision.

Once again, I thank you for the opportunity to submit some brief comments on this important piece of legislation. We would welcome the opportunity to work with you in making revisions which we hope will strengthen the bill and take into consideration the best interests of postmasters.

3/

Please feel free to contact me if I can provide you with any further information or assistance.

NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
1533 NEW HAMPSHIRE AVE., N.W., WASHINGTON, D.C. 20036   AREA CODE (202) 234-0832

L. J. ANDOLSEK   GEORGE E. AUMAN   HERBERT H. ANDERSON   MONROE W. WILLIAMSON

STATEMENT
OF
L. J. ANDOLSEK, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
FOR
THE HEARING RECORD REGARDING S. 2197
THE FEDERAL EMPLOYEES OPTIONAL EARLY RETIREMENT ACT

NARFE appreciates the opportunity to present our views on S. 2197. Allowing certain employees an option to retire earlier than expected is an accepted and humane method of dealing with major adjustments in the size and skills mix required of a large workforce. We commend the sponsors of this legislation for bringing this issue before the Congress.

NARFE would like to raise two issues which we, as an organization whose primary responsibility is to insure that the retirement system is capable of providing a secure retirement to those who have met retirement eligibility requirements, feel must be considered. Additionally, we urge the Committee to carefully review the adequacy of programs currently in place to determine whether this revolutionary legislation would be needed if vigorous application of current programs was pursued.

Current retirees have two major concerns about the retirement system they depend on for their income. The first is protecting the viability of the CSR Trust Fund — insuring sufficient sources of revenue and adequate reserve levels. Questions concerning the impact of S. 2197 in these areas have been raised. We intend to review data as it becomes available before arriving at our own conclusions regarding the impact of S. 2197 on the Fund. But we must and will oppose proposals which place the Fund in a fiscal position less advantageous than it currently enjoys.

Secondly, as we have discovered in recent years, the political viability of the program is quite distinct from its fiscal health. Despite its sound financing and declining statutory unfunded liability, retirement benefits have been attacked and reduced in recent years. Just six months ago Congress withdrew the 1986 cost-of-living adjustment for federal retirees after it became effective, despite the fact that more than sufficient funds were available for the COLA.

This action was not based on retirement facts. 1.4 million retirees whose average benefit is $1100 of fully taxable income per month are every bit as worthy of inflation protection as Social Security recipients. 500,000 widows and widowers who receive an average $500 per month survivor benefit depend just as much on inflation protection as their neighbors on Social Security.

The decision to single out federal retirees and withdraw their inflation protection was a political decision based on the popular, but false impression that federal retirees are overcompensated. Foremost on the list of political charges is the implication that most employees retire at age 55, even though the average age of retirement is close to 62. The average annuitant on the rolls is 69, and the average age of adult survivors is 70.

These are the people who depend on the system for their retirement income. We fear that our ability to protect needed benefits for current retirees could be eroded in the wake of a massive influx of younger retirees. Our critics would have new ammunition to attack the benefits of all based on the profile of the younger retirees who would take advantage of the early-out provisions.

NARFE recognizes and understands the feelings of many long-term employees, frightened by potential RIFs, angered by continuous political attacks, frustrated by compensation that continues to lag behind private industry. To them the prospect of an earlier than expected retirement appears as a welcome respite from a workplace environment which has deteriorated in recent years. But we need to provide assurances that when retirement does occur, expected benefits will be provided, and retiring employees can truly look forward to retirement security. Unless we succeed, the appearance of security will be just that — an apparition.

As the Committee considers S. 2197, we urge you to also review the application of the existing early retirement program, as well as programs to help match qualified displaced employees with job vacancies elsewhere in government. Under existing early retirement programs, agencies facing major changes in staff levels or required skills mix may be granted early retirement authority by OPM. If it is vigorously pursued, this approach can achieve this Committee's goal of providing a humane but targetted alternative to separating long-term workers who have performed as required, but who face an uncertain employment future through no fault of their own.

Such an effort however should be coupled with a real commitment to providing mobility among government agencies for employees whose jobs are threatened. A mandatory, government-wide placement effort could provide an alternative to separation or early retirement. When combined with a focused, early retirement option, everyone benefits.

NARFE appreciated the opportunity to present our views on S. 2197. We look forward to working with the Committee on this and other matters in the future.

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NATIONAL LEAGUE OF POSTMASTERS
OF THE UNITED STATES
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STATEMENT OF
R. FAIN HAMBRIGHT, PRESIDENT
NATIONAL LEAGUE OF POSTMASTERS
FOR THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
U.S. SENATE
ON
S. 2197, FEDERAL EMPLOYEES'
OPTIONAL EARLY RETIREMENT ACT OF 1986
MAY 15, 1986

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I AM R. FAIN HAMBRIGHT, PRESIDENT OF THE NATIONAL LEAGUE OF POSTMASTERS. OUR ORGANIZATION REPRESENTS MORE THAN 22,000 POSTMASTERS THROUGHOUT THIS NATION. WE ALSO SPEAK ON BEHALF OF THE NEARLY 50,000 OTHER FEDERAL EMPLOYEES WE REPRESENT AS ASSOCIATE MEMBERS ENROLLED IN OUR POSTMASTERS BENEFIT PLAN.

WE APPRECIATE THIS OPPORTUNITY TO PRESENT OUR VIEWS ON S. 2197, A BILL TO ESTABLISH AN OPTIONAL EARLY RETIREMENT PROGRAM FOR FEDERAL GOVERNMENT EMPLOYEES.

OUR POSITION ON THIS ISSUE IS VERY SIMPLE. WE SUPPORT THE CONCEPT OF EARLY RETIREMENT. EARLY RETIREMENT IS A VERY ATTRACTIVE OPTION FOR EMPLOYEES NEARING ELIGIBILITY WHO MAY HAVE A SPECIAL NEED TO RETIRE, OR WHO WORK FOR AN AGENCY THAT IS UNDERGOING EXTENSIVE REORGANIZATION OR REDUCTIONS IN FORCE. IN FACT, THE U.S. POSTAL SERVICE IS INVOLVED IN A MAJOR REORGANIZATION AT THE MOMENT, AND HAS

APPLIED TO THE OPM FOR AUTHORITY TO OFFER AN "EARLY-OUT" UNDER THE CURRENT RULES. THIS REQUEST HAS NOT BEEN APPROVED TO DATE.

CERTAINLY, MANY OF OUR MEMBERS MIGHT BENEFIT FROM AN EARLY RETIREMENT OPTION AT THIS TIME.

HOWEVER, WE HAVE GRAVE RESERVATIONS ABOUT SEVERAL PROVISIONS OF S. 2197 AS CURRENTLY DRAFTED. SPECIFICALLY, THE 2% PER YEAR PENALTY FOR THOSE UNDER AGE 55, AND THE FIVE YEAR HIRING FREEZE ON REPLACING THOSE WHO OPT TO RETIRE EARLY UNDER THIS BILL.

NOT ONLY DOES A 2% PER YEAR PENALTY PERMANENTLY REDUCE THE PURCHASING POWER OF AN ANNUITY, BUT THE SURVIVING SPOUSE BENEFIT WOULD BE REDUCED BY AN EQUAL PERCENTAGE. THE AVERAGE SPOUSE ANNUITY IS CURRENTLY LESS THAN $500 PER MONTH.

A FIVE YEAR HIRING FREEZE COULD SEVERELY IMPAIR AN AGENCY'S ABILITY TO CARRY OUT ITS CONGRESSIONAL MANDATE. IN THE CASE OF THE POSTAL SERVICE, WE DO NOT BELIEVE THAT CURRENT SERVICES COULD BE MAINTAINED UNDER SUCH A PROVISION.

IF A POSTMASTER RETIRES, WHAT WILL HAPPEN TO HIS POST OFFICE, IF HE CANNOT BE REPLACED? WILL IT BE CLOSED? OR WILL THE SERVICES IT PROVIDES BE CONTRACTED-OUT? IF A SUBSTANTIAL NUMBER OF POSTMASTERS ELECT TO TAKE ADVANTAGE OF AN EARLY RETIREMENT OPTION, AND WE SUSPECT THAT A VERY LARGE NUMBER WOULD MEET THE ELIGIBILITY CRITERIA UNDER THIS BILL, THE NATIONAL LEAGUE OF POSTMASTERS IS EXTREMELY

APPREHENSIVE THAT THIS MIGHT LEAD TO MASS CLOSINGS OF SMALL POST OFFICES OR TO GREATLY ACCELERATED CONTRACTING-OUT OF POSTAL SERVICES. THE NATIONAL LEAGUE OF POSTMASTERS IS ABSOLUTELY OPPOSED TO EITHER OF THESE OUTCOMES.

IT IS UNCLEAR UNDER THE BILL AS CURRENTLY DRAFTED WHETHER THE U.S. POSTAL SERVICE WOULD BE CONSIDERED A "USER FEE" AGENCY OR NOT. THE NATIONAL LEAGUE OF POSTMASTERS ASSERTS THAT, IF THIS LEGISLATION WERE TO BE ADOPTED, IT IS ABSOLUTELY IMPERATIVE THAT THE POSTAL SERVICE BE EXEMPTED FROM ANY HIRING FREEZE PROVISIONS.

WE ARE ALSO CONCERNED THAT ADOPTION OF A BLANKET EARLY-OUT OPTION COULD RESULT IN THE EXODUS OF MANY HIGHLY TRAINED, SKILLED, EXPERIENCED EMPLOYEES, INCLUDING POSTAL MANAGERS, WHO WOULD BE DIFFICULT, IF NOT IMPOSSIBLE TO REPLACE.

WE HOPE THAT THE IMPLICATIONS OF THE 2% PENALTY, OF THE FIVE YEAR HIRING FREEZE PROVISION, AND OF THE SUDDEN LOSS OF SENIOR EMPLOYEES, WILL BE CAREFULLY EXAMINED BY THIS COMMITTEE.

WE THANK YOU, MR. CHAIRMAN, FOR YOUR CONCERN AND FOR YOUR EFFORTS ON BEHALF OF FEDERAL EMPLOYEES, AND FOR ALLOWING US THE CHANCE TO PROVIDE TESTIMONY ON THIS IMPORTANT ISSUE.

TESTIMONY
OF
TOM W. GRIFFITH, PRESIDENT
NATIONAL RURAL LETTER CARRIERS' ASSOCIATION
BEFORE THE
SENATE GOVERNMENTAL AFFAIRS COMMITTEE
CONCERNING
OPTIONAL EARLY RETIREMENT - S. 2197

Dear Mr. Chairman and Members of the Committee:

My name is Tom W. Griffith. I am President of the 69,000-member National Rural Letter Carriers' Association. The rural letter carriers daily drive 2,419,160 miles to deliver the mail on 40,434 rural routes to approximately 17,444,992 rural American families.

In rural communities, we provide a post office on wheels, offering all of the services that citizens can obtain at their local post office.

I appreciate this opportunity to appear before this Committee to express our views on the proposal to allow optional early retirement. I would like to express our appreciation to Senator Roth for his interest and concern for our membership. As you might expect, there is a great deal of interest from many of our members concerning the opportunity that this legislation presents. We believe that S. 2197, a well-intentioned Bill, needs some improvement before it should move forward in the legislative process. Under this legislation, Postal and Federal workers would become eligible for retirement during the last six months of 1986, if they fall into one of four categories:

(1) Age 50, with 20 years of service;

(2) Age 55, with 15 years of service;

(3) Age 57, with 5 years of service; or

(4) At any age, with 25 years of Federal service.

If a worker is age 55 or above, he or she will receive full retirement benefits. However, if the employee elects to retire before age 55, the annuity will be reduced by 2% for each year under the age of 55. This is a concept which we have seen offered almost every year since this Administration first took Office. Generally, it is included in the Budget submitted by the President to the Congress. We were opposed to a penalty provision in the budget proposal, and object to such a concept being written in permanent law.

We have difficulty with the hiring freeze provision. The legislation should spell out whether the U. S. Postal Service is or is not a "user-fee" agency. If the USPS is not a "user-fee" agency, then the hiring freeze would go into effect. We could not agree to a 5-year hiring freeze for every rural mail route that becomes vacant due to an employee taking advantage of this early optional retirement legislation.

The rural mail delivery service is different from many other branches of the Federal Government; and, even other sections of the Postal Service in that it serves the most remote parts of our Nation. It is possible that with a hiring freeze in urban areas, adjustments could be made to accommodate the delivery of mail. But, we believe this would be virtually impossible in the rural areas of America. We are troubled by the contracting-out provision. The proposed legislation is not specific enough. If the Postal Service were ruled not a "user-fee" agency, a freeze would be imposed on hiring. In order to deliver the mail in rural America, those routes would have to be contracted out. The history of the current Administration and, particularly, the Office of Personnel Management, does not permit us to be very optimistic. The draft language grants far too much discretion to the Director of OPM. Considering the predisposition of the current Administration, the discretionary authority granted to the

Director of OPM, and the ability to contract out rural routes are items we cannot approve those provisions.

We believe there should be some economic analyses. Currently, there is no statistical information on the impact that this legislation, coupled with the proposed change in the Tax Bill, would have regarding the numbers of employees who will retire. We need to know what kind of pressure that will put on the Civil Service Trust Fund. A lot of us are depending upon that Trust Fund being solvent for many years.

Finally, it has been our experience recently, that our members who do retire, are having extreme difficulty in processing their paper work through the Office of Personnel Management in a timely fashion. We would urge this Committee, if you propose moving this legislation, to consider accompanying legislation which grants permission for training and temporary hiring of clerks by OPM to handle the additional volume of retirement paper work.

Mr. Chairman and Members of the Committee, we appreciate your interest in this subject. If these changes are incorporated into the Bill, we can support this legislation.

STATEMENT BY

DR. ZERLE L. CARPENTER
DIRECTOR
THE TEXAS AGRICULTURAL EXTENSION SERVICE

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS
OF THE
UNITED STATES SENATE
2ND SESSION 99th CONGRESS

MAY 15, 1986

SUBMISSION-FOR-THE-RECORD

MR. CHAIRMAN, I AM DR. ZERLE L. CARPENTER, DIRECTOR OF THE TEXAS AGRICULTURAL EXTENSION SERVICE. I WELCOME THIS OPPORTUNITY TO PROVIDE COMMENTS FOR THE RECORD REGARDING S. 2197, THE FEDERAL EMPLOYEES OPTIONAL RETIREMENT ACT OF 1986. I THOUGHT IT WOULD BE USEFUL TO THE COMMITTEE AND STAFF TO EXAMINE THIS LEGISLATION, ITS INTENT, AND UTILITY IN TERMS OF PROBABLE IMPACTS ON VARIOUS AGENCIES. WHAT FOLLOWS IS A CAPSULE VIEW OF S.2197 AND ITS POSSIBLE RELATIONSHIP TO THE TEXAS AGRICULTURAL EXTENSION SERVICE.

THE FEDERAL SMITH-LEVER ACT OF 1914 AUTHORIZED AND PROVIDED FOR THE CONDUCT OF COOPERATIVE EXTENSION WORK IN AGRICULTURE, HOME ECONOMICS, AND RELATED SUBJECTS BY THE LAND-GRANT COLLEGES AND UNIVERSITIES IN THE SEVERAL STATES WITH THE UNITED STATES DEPARTMENT OF AGRICULTURE COOPERATING. THE TEXAS LEGISLATURE ACCEPTED THE PROVISIONS OF THIS ACT IN 1915, AND DESIGNATED TEXAS A&M UNIVERSITY AS THE INSTITUTION TO RECEIVE AND ADMINISTER FUNDS MADE AVAILABLE UNDER THE SMITH-LEVER ACT. THE BASIC FUNCTION OF THE TEXAS AGRICULTURAL EXTENSION SERVICE IS ".....TO AID IN DIFFUSING AMONG THE PEOPLE OF THE UNITED STATES USEFUL AND PRACTICAL INFORMATION ON SUBJECTS RELATING TO AGRICULTURE

AND HOME ECONOMICS, AND TO ENCOURAGE THE APPLICATION OF THE SAME....". LEGISLATIVE ACTION ALSO PROVIDED FOR COOPERATIVE SUPPORT OF THE TEXAS AGRICULTURAL EXTENSION SERVICE BY COUNTY GOVERNMENT.

CURRENTLY, THE TEXAS AGRICULTURAL EXTENSION SERVICE EMPLOYS A STATEWIDE WORKFORCE WHICH IS LOCATED IN 249 COUNTY LOCATIONS, 12 DISTRICT OFFICE SITES, AND IN VARIOUS SUBJECT-MATTER DEPARTMENTS ON THE TEXAS A&M UNIVERSITY CAMPUS. OF ITS TOTAL 1,051 PROFESSIONAL EMPLOYEES, TEXAS AGRICULTURAL EXTENSION SERVICE HAS 895 PERSONNEL WHO ARE PRESENTLY COVERED BY THE FEDERAL CIVIL SERVICE RETIREMENT SYSTEM.

AS WE INTERPRET THE PROVISIONS OF S. 2197, SENATORS ROTH AND STEVENS INTENDED TO HELP FEDERAL AGENCY ADMINISTRATORS REDUCE PERSONNEL SIZE AND RELATED BUDGETARY COSTS THROUGH AN "EARLY OUT" AND CONCOMITANT HIRING FREEZE PROCEDURE. THERE ARE STIPULATIONS IN THE BILL WHICH PROTECT AGENCIES THAT MUST RETAIN A CRITICAL CORPS OF EXPERIENCED PROFESSIONALS.

THE TEXAS AGRICULTURAL EXTENSION SERVICE IS REDUCING ITS STAFF BY 109 POSITIONS THIS FISCAL YEAR DUE TO REDUCTIONS IN AVAILABLE PUBLIC REVENUES. PROJECTIONS FROM OUR PERSONNEL ANALYSTS SUGGEST THAT IF S. 2197 WERE PASSED, AND FURTHER, IF EXTENSION SERVICE-USDA AND THE STATES' COOPERATIVE EXTENSION SERVICES WERE ALLOWED TO PARTICIPATE, APPROXIMATELY 40 TO 50 TEXAS AGRICULTURAL EXTENSION SERVICE EMPLOYEES WOULD HAVE THE OPTION TO TAKE EARLY RETIREMENT.

IN THE EVENT REDUCTIONS PURSUANT TO THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985 (P.L. 99-177), AND TEXAS LEGISLATIVE MANDATES FOR FISCAL YEAR 1988 WERE TO REFLECT CUTBACKS, THEN SIGNIFICANT NUMBERS OF ADDITIONAL PERSONNEL REDUCTIONS-IN-FORCE WOULD OCCUR. THE PROVISION OF S. 2197 WOULD BE VOLUNTARY RATHER THAN AN INVOLUNTARY METHOD FOR TRIMMING STAFF SIZE. I BELIEVE THAT THE PROVISIONS OF S. 2197 COULD OFFER A ONE-TIME ALTERNATIVE FOR US TO DEAL WITH BUDGETARY SHORTFALL.

THANK YOU AGAIN FOR THIS OPPORTUNITY TO COMMENT.

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